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D 8523A

JAPAN
Trade review could end price-fixing
Page 7

World News

Emergency talks over Iraqi nuclear facilities

An emergency session of the International Atomic Energy Agency's governing board will be held in Vienna tomorrow to discuss Iraq's failure to meet UN demands for full disclosure of its nuclear facilities.

Investigators who visited Iraq as part of the UN probe have found two previously undisclosed plants which they believe were planned for enriching uranium. Page 6

No early Start deal
The US has virtually ruled out concluding the strategic arms reduction talks (Start) when President George Bush meets President Mikhail Gorbachev in London today. US Secretary of State James Baker said more work was needed.

Serbo-Croat clashes
Two more Croat policemen were killed in renewed fighting between Croats and Serbs in Croatia. An attempt to convene a joint session of Yugoslavia's leaders collapsed. Page 2

China's flood toll
Floods in eastern China have killed over 1,700 people and caused more than $7bn of damage, the official news agency said. Bangladesh floods, Page 6

Winnie Mandela appeal
A Johannesburg judge granted Winnie Mandela permission to appeal against her conviction and six-year jail sentence for kidnapping and assault. Mrs Mandela remains free on bail. Page 6

Turkish envoy hurt
A Turkish chargé d'affaires in Athens was slightly injured when a bomb in a parked vehicle exploded as his car drove by. The attack came two days before US President George Bush visits Greece. Page 2

German tax probe
A number of employees at car maker Daimler-Benz and an ex-official of the liberal Free Democratic Party are under investigation for possible tax evasion, German prosecutors said. Page 2

BA fury over air routes
British Airways chairman Lord King said BA was halting cash contributions to the UK's ruling Conservative party. The airline is furious at the government for allocating some BA routes to its US rivals. Page 9

Police to stand trial
Six Peruvian policemen have been sacked and will be tried for homicide after shooting down a commercial aircraft, killing all 17 people aboard.

Crowd attacks mayor
An anti-communist crowd in Bulgaria attacked the mayor of Sofia when he refused to let them hold a demonstration. Mayor Alexander Karakachanov was driven to safety in a police car.

Arafat escapes injury
PLO leader Yassir Arafat escaped unhurt when the speeding car he was in overturned on the road from Baghdad to Amman on Sunday.

Shadow government
Madagascar's opposition named its own president and prime minister – a symbolic move made to increase pressure on President Didier Ratsiraka to quit.

Suspects extradited
Two IRA murder suspects were extradited from the Netherlands to Germany. A Dutch court acquitted them of murdering two Australian tourists, but they are wanted in Germany over the 1990 killing of a British army major.

Helpers hit
Ohio hospital patient Larry Jordan was arrested after allegedly shooting dead a nursing assistant and wounding a nurse.

Business Summary

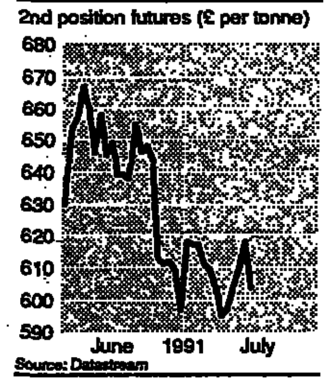
Black and Packer join up to bid for Fairfax

FAIRFAX, Australian media group put into receivership in December with debts of A$1.7bn ($1.3bn) has been bid for by a consortium headed by Conrad Black, Canadian proprietor of the UK's Daily Telegraph group, and Kerry Packer, Australian businessman with media interests. The consortium, Tourang, is understood to value Fairfax at between A$1.1bn and A$1.2bn. Page 15

FRANCE'S inflation rate has moved below Germany's for the first time since 1973. Economists expect the two rates to diverge. Page 14

COCOA: futures in London came under pressure from chart-based selling. Dealers blamed failure of attempts to breach resistance in the £620 to £625 a tonne range for the September contract. Page 30

Cocoa



Source: Datastream

MAXWELL Communication Corporation plans to demerge its US interests which account for more than 70 per cent of MCC's assets. Page 15, Lex, Page 14

ABN Amro, Netherlands' biggest bank, is to acquire Talman Federal Savings & Loan of Chicago. The $430m transaction comprises a $100m agreed bid for Talman shares and a $330m capital injection. Page 15; Lex, Page 14

POLAND: an illicit debt buyback scheme has emerged as Poland reaches a critical point in talks with western banks over rescheduling debt. Page 14

GERMANY: a stark warning over risks from rising German budget deficits and higher interest rates was made by two influential members of the Bundesbank's policy-making council. Page 14

ROLLS-ROYCE of the UK and General Electric of the US will split evenly the contract to supply gas turbine engines for eight destroyers in Japan. Page 8

MERCURY Personal Communications and Unitel, two UK mobile communications companies, have agreed partly to merge operations. Also, Cable and Wireless, UK-based telecommunications group, has bought from Motorola, US electronics group, the 40 per cent share of Mercury it did not already own. Page 16; Lex, Page 14

TRADE: a Japanese report on unfair trading practices has highlighted US and European anti-dumping measures. Page 8

CHRYSLER Corp of the US and Japan's Mitsubishi Motors are close to agreeing reorganisation of their US production venture. Page 17

FLETCHER Challenge, New Zealand forestry and resources group, claimed to be the world's biggest producer of chemical grade methanol after its purchase for $90m of Cape Horn Methanol in Chile. Page 17

MERRILL LYNCH and Smith Barney, Harris Upham saw record second-quarter profits. At Merrill, largest US broker, earnings for the quarter rose 149 per cent to $184.3m year on year. At Smith Barney earnings rose 125 per cent to $37.4m. Page 18

Bank of England had damning auditor's report nine months before it acted

BCCI fraud warning last October

By Lionel Barber in Washington and Richard Waters in London

THE Bank of England received a damning auditor's report on suspected fraud and corrupt banking practices at BCCI in October 1990 – a full nine months before it took action – it emerged yesterday.

The report is understood to have been delivered on October 3 to BCCI's directors, its controlling shareholders and its "college" of banking regulators. The day after, BCCI's two top figures – Mr Agha Hassan Abedi, its founder and president, and Mr Swaleh Naqvi, its chief executive – resigned from the bank.

The existence of the report casts doubt on the Bank of England's contention that it was only presented with hard evidence of fraud in June this year. That was when Price Waterhouse, BCCI's auditor, delivered a later report running into several hundred pages on the Abu Dhabi-controlled bank's operations.

The Bank confirmed yesterday that the October report contained details of "inappropriate transactions" involving senior members of BCCI. It ran to some 30 pages and its warning of suspected massive fraud was unmistakeable, according to a senior lawyer at Patton Boggs and Blow, the Washington law firm which represents the Abu Dahbi government, who has read the document.

The lawyer, who read the report in October 1990 when his firm took over the BCCI account, said: "My immediate reaction was that we are dealing with the biggest fraud in history."

The October report stated that several hundreds of millions of dollars of loans had been made without the approval of BCCI's board, in some cases to favoured individuals - so called "insider loans".

The report also identified "hundreds of millions of dollars" of non-performing loans, many of which were made without the purview of the board and the auditors.

"The report made reference to the possibility of fraudulent documentation at the bank," said the lawyer.

A report in March 1990 from the auditors had pointed to the existence of loans running into hundreds of millions of dollars to a coterie of connected people.

Price Waterhouse's October report went far further, though, by outlining suspicions of fraud on a major scale. The document details irregularities in the way hundreds of millions of dollars of loans had been authorised and documented within the bank.

The Bank of England continued to maintain yesterday that, despite the evidence presented to it of "inappropriate transactions", the report did not justify the "nuclear option" of closing down the bank. The regulators believed that, provided the irregular loans were hived off into a separate company and a new management team took over the running of the bank, BCCI should be allowed to continue to operate.

The Bank would not say whether it passed details of the "inappropriate transactions" to any other authorities. It did
Continued on Page 14

Further BCCI news, Page 7


Across the board: Prime Minister John Major (left) with Secretary of State James Baker and President George Bush wait for the session to start

Enhanced peace-keeping and human rights role sought for UN

G7 leaders move to curb arms build-up

By Peter Norman, Robert Mauthner and Rachel Johnson in London

THE WORLD'S biggest industrial democracies agreed yesterday to take action to curb the spread of arms and to strengthen the role of the United Nations.

Their far-reaching response to the lessons of the Gulf crisis and to the end of the Cold war came as leaders and finance ministers of the Group of Seven nations prepared for today's historic meeting in London with President Mikhail Gorbachev.

At their summit meeting, the G7 countries – comprising the US, Japan, Germany, France, Britain, Italy and Canada – agreed to allow the Soviet Union to enter a "special relationship" with the International Monetary Fund and World Bank.

This would be an important first step towards Moscow's plans to enact radical economic reform. It would give the Soviet Union access to western expertise but no large-scale financial support.

Mr James Baker, the US secretary of state, promised that Mr Gorbachev "will not go away empty handed". British government sources said the Soviet leader could expect technical assistance, joint ventures in sectors such as energy, and access to projects financed by the UK government's "know-how" fund set up to promote free-market principles in eastern Europe.

The summit leaders adopted a declaration designed to prevent arms build-ups similar to those in Iraq before last year's invasion of Kuwait.

They mapped out an enhanced role for the United Nations as a protector of human rights, guarantor of peace and security and a deterrent to aggression.

As if to demonstrate that this embryonic new world order did not lack teeth, G7 leaders warned that they would maintain sanctions against Iraq until it had implemented all relevant United Nations Security Council resolutions passed since the invasion of Kuwait.

Mr Douglas Hurd, the British foreign secretary, made clear that Britain would not hesitate to join the US and France in military action against Iraq, if it rejected the Security Council demand to report, and eventually destroy, all its nuclear weapons potential.

Background – Page 4
- Baghdad sanctions stay
- Call for arms sales register
- Summiteers backpedal on the environment
- Soviet ministers hope Gorbachev faces tough line

British officials said Mr John Major, the UK prime minister and summit host, was "delighted" that the seven leaders had agreed steps to curb the spread of conventional weapons and had taken action to prevent the proliferation of nuclear, biological and chemical weapons.

While admitting that nations had a right to defend themselves, the leaders:

● Called for greater "transparency" of the international trade in conventional arms, more intensive consultations between leading arms exporters and action to prevent the build-up of "disproportionate arsenals".

● Endorsed Mr Major's proposal for the establishment of a universal register of arms transfers under UN auspices. This could alert the international community to any nation that was building up conventional weapons stocks beyond "a reasonable level".

● Expressed deep concern about the proliferation of nuclear, biological and chemical weapons, and missile delivery systems.

● Aimed for a "total and effective ban on chemical and biological weapons".

A separate political declaration said that the international community must build on the new spirit of co-operation shown in the Gulf conflict in the Middle East and elsewhere. The UN's peace-keeping role should be reinforced.

The leaders particularly underlined the need for the UN's humanitarian and disaster relief roles to be strengthened through the appointment of a high official to manage crises such as the flight of the Kurds from their homes in Iraq and the recent flooding in Bangladesh.

UK begins probe of Eurobond market

By Simon London in London

BRITAIN'S Office of Fair Trading is investigating the way underwriting fees are fixed and new bond issues are priced in the international bond market.

The competition watchdog has written to seven leading Eurobond firms, all based in London, asking for information on the way in which fees payable to underwriters are fixed and how the trading price of a new bond issue is determined.

The OFT described the letter as "a polite inquiry" under its duty to investigate possible cases of restrictive trade practices.

It said seven firms had been asked to explain their trading practices: Credit Suisse First Boston, Deutsche Bank Capital Markets, JP Morgan Securities, Nomura International, Banque Paribas Capital Markets, Morgan Stanley International, and UBS Phillips & Drew. None of the firms would comment on the details of the letter yesterday.

The interest of the OFT follows one of the most profitable periods for intermediaries in the Eurobond market since the mid-1980s with $120bn of new bond issues by companies, governments and supranational agencies.

However, the OFT is concerned that some of the market practices which have restored profitability could also be anti-competitive. There are
Continued on Page 14

Lex, Page 14

Steady fall in US inflation predicted by Greenspan

By Our Foreign Staff

A STEADY decline in US inflation was forecast yesterday by Mr Alan Greenspan, chairman of the Federal Reserve, America's central bank.

The outlook was for "underlying inflation to continue to slacken as the economy first recovers and then expands at a moderate rate through the end of next year", he said.

He did not, however, indicate any change in monetary policy, which remains in a posture of "watchful waiting as economic indicators point increasingly toward recovery." This year's targets for the main monetary aggregates were rolled over unchanged for 1992.

The Fed is projecting inflation of about 3½ per cent both this year and next. However, the apparent stability masks a downward trend because lower oil prices have exaggerated the fall in inflation this year. Consumer prices rose by just over 6 per cent last year.

Mr Greenspan, delivering his biannual Humphrey Hawkins testimony to the House banking committee, said a variety of cyclical indicators had bottomed by early spring, providing "compelling evidence" that the recession was over. The Fed expects growth of just under 1 per cent this year and 2¾-3 per cent in 1992. But Mr he warned the recovery "could be muted or even falter".

He said the US financial system was changing rapidly, with patterns of credit usage strikingly different than in the 1980s. The ratio of debt to gross national product, which had soared in the past decade, was flattening out because consumers and companies had achieved a new, higher equilibrium level of indebtedness.

Slow growth of debt should not be read as implying credit was insufficient to support satisfactory economic performance. But in some cases credit retrenchment had gone too far. Some creditworthy borrowers were still unable to obtain credit on reasonable terms, he said.

On banking reform, Mr Greenspan said broad-based reform to the banking system was long overdue and urged Congress to pass legislation this year. "It should not be held over. Reform is long overdue and I would say the sooner the better."

He did not favour separating a recapitalisation of the bank insurance fund (BIF) from sweeping overhaul of the banking industry.

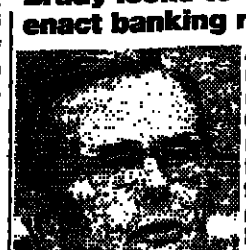
"It would be most unfortunate if this process would be stretched out in a manner that would require the House to break apart BIF from the rest of the bill and deal with it separately . . . It is an integrated process." Mr Greenspan said.

As expected, the Fed left money supply growth targets unchanged for 1992 from 1991 bands of M2 at 2.5-6.5 per cent and M3 at 1-5 per cent. The Fed said M2 has grown at slightly less than a 4 per cent rate this year – within target.

Recession ending, Page 3

CONTENTS

Brady looks to Congress to enact banking reforms


After welcoming the merger of Manufacturers Hanover and Chemical Bank as a move to correct the fragmented bank sector, US Treasury secretary Nicholas Brady hopes Congress will pass new reforms
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MARKETS

STERLING
New York lunchtime:
$1.6435
London:
$1.6455 (1.6525)
DM2.960 (2.956)
FFr10.0450 (10.0275)
SFr2.570 (2.5575)
Y225.50 (225.75)
£ index 90.6 (90.4)

GOLD
New York: Comex Aug
$369.8 (370)
London:
$368.8 (368.9)

N SEA OIL (Argus)
Brent Sep
$19.875 (19.625)

Chief price changes yesterday: Page 15

DOLLAR
New York lunchtime:
DM1.79925
FFr6.1060
SFr1.5610
Y137.17
London:
DM1.7990 (1.7875)
FFr6.1050 (6.0675)
SFr1.5615 (1.548)
Y137.10 (136.65)
$ index 67.6 (67.5)
Tokyo close:Y136.95

US lunchtime rates
Fed Funds: 5⅞
3-mo Treasury
Bills: 5.723
Long Bond:
96⅜
yield: 8.452

STOCK INDICES
FT-SE 100:
2,556.8 (+24.3)
FT Ordinary:
1,971.4 (+20.3)
FT-A All-Share:
1,217.40 (+0.9)
New York lunchtime:
DJ Ind. Av.
2,991.5 (+0.89)
S&P Comp
382.14 (−0.25)
Tokyo: Nikkei
23,375.15 (−83.89)

LONDON MONEY
3-month Interbank:
11½ (11$\frac{1}{32}$)
Liffe long gilt future:
91$\frac{29}{32}$ (91$\frac{31}{32}$)

US mission to Prague for talks on weapons row

By Ariane Genillard in Prague

A TOP-LEVEL American mission arrived in Prague yesterday to discuss Czechoslovakia's controversial arms exports and possible US investments in the conversion process of the defence industry to civil production.

Mr Donald Atwood, the deputy defence secretary, arrived with representatives of leading US defence companies as part of a series of meetings aimed at defusing a dispute over Czechoslovakia's planned export of 250 tanks to Syria.

The US and Israel have put pressure on Czechoslovakia not to go ahead with the sale which was announced last March. But Czechoslovakia's defence minister, Mr Lubos Dubrovsky, denied during a recent visit to Washington that the planned Syrian deal broke arms control agreements.

An official at the Czechoslovak Foreign Affairs Ministry said that Czechoslovakia might try to use potential arms exports as a lever to get US financing for the conversion of its defence industry to civil production.

Mr Atwood and senior managers from General Electric-Europe, General Dynamics, Avondale Industries and United Technology will visit the arms plants in Slovakia tomorrow and explore possible investments in their conversion programme.

The federal government has given Slovak arms factories until the end of the month to submit conversion plans which would make them eligible for the limited government financing available. The plants have been reluctant to give up their profitable arms exports.

Hanomag of Germany and Lombardini of Italy have already signed contracts with Turcanske Strojarne Martin, the largest arms plant in Slovakia, for the production of tractors and small engines respectively. Other foreign investors have shown an interest in the privatisation of the technologically more advanced arms plant of Aero Vodochody, near Prague, which manufactures L-39 training aircraft.

■ Synthesia Semtin, the manufacturer of the explosive Semtex used by terrorist groups across the world, has received an exemption from the general ban on explosives exports by the federal Ministry for Foreign Trade, a local newspaper has reported.

No one was available for comment yesterday at the ministry or the company.

The remains of a car bomb which injured the Turkish consul in Athens yesterday. The attack came two days before a scheduled visit by President Bush, during which Greek-Turkish relations will be discussed, Reuter reports from Athens. Police said the consul, Mr Deniz Bolukbasi, 44, was injured by the powerful blast as he drove from the Turkish consulate in the northern Athens suburb of Psychiko. A woman administrative attachée and the driver were also injured. The explosives, packed in a car parked 40 yards from Mr Bolukbasi's home, were detonated by remote control as the diplomats drove by. Police said Mr Bolukbasi was badly hurt but his condition was stable.

The Turkish Foreign Ministry condemned the attack and demanded that Greece immediately step up security for other Turkish officials. There was no immediate claim of responsibility. Yesterday's attack came at a critical point in Greek-Turkish relations. The two feuding Nato allies are trying to bridge long-standing disputes over northern Cyprus and mineral rights in the Aegean.

Shatalin leads an opposition split

By Leyla Boulton in Moscow

LESS THAN a month after its foundation, cracks are appearing in a star-studded Soviet opposition movement, with an announcement by Professor Stanislav Shatalin, the leading economist, that he is setting up a separate party.

Professor Shatalin, a former economics adviser to President Mikhail Gorbachev, had put his name to the Movement for Democratic Reform launched on July 1 by Mr Eduard Shevardnadze, the ex-foreign minister, and other leading figures, including a clutch of Communist liberals.

However, the outspoken Mr Shatalin, who left the Communist party earlier this year, voiced doubts yesterday that the movement, which has received President Gorbachev's tacit support, was "really committed to the national well-being".

His new, resolutely anti-Communist, United Democratic Party brings in representatives from eight Soviet republics, in an attempt to blend the nationalist movement with democratic forces.

In short, citizens could be forgiven for being confused. The new party, which unlike Mr Shevardnadze's organisation is a party rather than a movement, also absorbs the Democratic Party of Russia, set up by a former Hero of Socialist Labour, Mr Nikolai Travkin. Mr Travkin has spent most of the past year quarrelling with other democratic parties over whether to unite to counter the might of the 16m-strong Communist party.

The deputy-chairman of the Democratic Party of Russia said there were fears that Mr Shevardnadze and Mr Yakovlev "still wanted to reform the Communist Party". The new party wants to dismantle the socialist system and create a western-style market democracy in its place.

While vowing that it would not be "a hostage to (famous) names", the United Democratic Party has its own array of stars – including Mr Stanislav Govorukhin, the film-maker who produced a scathing attack on the socialist system called "We Cannot Live This Way". Professor Svyatoslav Fyodorov, the eye-surgeon and millionaire, said the party would fight "the myth that there can be freedom without economic freedom".

Prof Shatalin, who has made no secret that he himself would be interested in replacing President Gorbachev as president, stressed yesterday that the new party would prepare to fight for power in the next all-union elections – scheduled for after the signing of a new union treaty.

'To be or not to be' for Shakespeare groups in Germany

The English playwright's followers in east and west are arguing over unification, writes David Marsh

GERMANY achieved its political unification nine months ago, but the "to be or not to be" question still dogs the country's Shakespeare societies, which as yet continue to be divided along east-west lines.

The German Shakespeare Society was established in the city of Weimar in 1864, six years before the formation of the unified German Empire.

But after the building of the Berlin Wall, the organisation split into eastern and western halves in 1963/64, with the western section finding a new home in Bochum, in the industrial area of the Ruhr.

The two societies have so far agreed co-operation – including the joint publication of a Shakespeare Yearbook. They will hold a joint annual meeting in 1993. But if the spirit is willing, the flesh so far still appears to be weak; the venue for the gathering has not yet been fixed, and a backstage dispute is building up about whether the Bard's German followers will eventually base their reforged organisation in east or west Germany.

In this most literary of nations, Shakespeare takes pride of place as the most frequently-performed playwright. The Bard clearly sympathised with the complexities of the German soul. The Germans not only sympathise with him – they have adopted him too.

"Deutschland ist Hamlet," the liberal poet Ferdinand Freiligrath proclaimed in the last century. One early 20th century playwright, Gerhardt Hauptmann, went so far as to declare that, although Shakespeare was born and died in Britain, he was living on in Germany.

"Hamlet mirrors us Germans," says Mr Rolf Breitenstein, a German author and diplomat who has a dog of the same name as Shakespeare's most well-known character.

The Germans' favourite pieces (apart from the saga of the moody Dane) are plays like King Lear, Macbeth and Julius Caesar – partly, says Mr Breitenstein, because of the story of struggle against dictatorship. In lighter mood, they also like A Midsummer Night's Dream, turned by one daring local playwright into "The Park".

Over the tussle of where to site the reunited Shakespearean society, Weimar seems to hold the better cards, partly for legal reasons.

The wrangling could be a smaller-scale version of the disagreement – now settled in favour of Berlin – about whether Berlin or Bonn should be made the German seat of government.

The composition of the east and west German societies reflects the split German personality. At the two organisations' annual meetings in April, the western society (1,800 members) chose for their discussions in Bochum the theme "Shakespeare – Nation – Nationalism". The Weimar group (2,000 members) selected a down-to-earth topic more in keeping with east Germany's post-unity sea of troubles: "Shakespeare and Chaos".

Prof Dieter Mehl, a top west German authority on Shakespeare, has played a leading role in trying to merge the Bards' Teutonic followers. Prof Mehl's work – Shakespeare's Tragedies: An introduction – has been translated into English. Although the former regime tried to use the playwright's work to assert socialist ideals, Shakespeare's theatre remained relatively free of ideological influence, Prof Mehl says. The Weimar society is still under the presidency of Mr Robert Weimann, a well-known Marxist Shakespearean. But it has already adapted to western ways as "the worst people have now retreated," says Prof Mehl.

Overcoming such ideological legacies may prove to be the least of the problems facing German Shakespeareans, as they ponder whether to merge or not to merge. The auguries are that it will take a while longer for them to screw their courage to the sticking point.

EC monitoring force heads for Zagreb

By David Buchan in Brussels

A MOTLEY group of about 50 assorted diplomats and army officers, together with a couple of dozen support staff from the 12 EC member states and the European Commission, will today assemble in Zagreb for the start of the European Community's first venture in international peace-keeping.

From the Croatian capital, where the EC already has a 21-strong advance party, the EC monitoring force hopes to fan out to positions in Croatia and Slovenia tomorrow in three Dutch army helicopters which flew out from the Netherlands yesterday.

These have been specially repainted a peaceful white, carrying the EC emblem of 12 gold stars on a blue background. The monitors will wear the same emblem on their arms.

Precisely how the monitors carry out their tricky task of supervising the Brioni accords falls chiefly to the Dutch head and deputy head of the mission. They are, respectively, Mr Jo van der Valk, a former Dutch ambassador to Belgrade, and Brigadier General Johannes Kosters.

The Brioni accords set the EC force the task of monitoring the ceasefire between federal and republican forces, the lifting of the road blockade of federal troops to allow them to return to barracks, the return of equipment to federal troops, the deactivation of the republics' territorial defence units, the release and return of all prisoners, and, more broadly, the suspension of any implementation of the two republics' declarations of independence for three months.

The small, unarmed EC force would not be capable of physically separating warring Yugoslavs even if it had been mandated to do so.

There are some Serbo-Croat speakers, including Mr van der Valk, among the monitoring force, which will also have its own interpreters. Ground transport is being provided by the EC itself, chiefly in the form of 20 Jeeps from Italy.

Britain, France, Germany and Italy are providing five observers each, as is the Netherlands as presidency country. Spain, Belgium and Denmark are fielding four each, and most other EC states three. The Commission, with no soldiers to offer, is providing a Dutchman, an Italian and a Frenchman, plus a German security guard.

Daimler-Benz linked to tax evasion inquiry

A NUMBER of employees at car maker Daimler-Benz and a former official of the liberal Free Democratic Party (FDP) are under investigation for possible tax evasion, German prosecutors said yesterday, Reuter reports from Stuttgart.

The chief prosecutor of the city of Stuttgart, Mr Klaus Bieleck, confirmed a report released by Stern magazine ahead of publication tomorrow, that an investigation had started last year.

"We suspect a contribution from Daimler to the FDP was officially listed as an operating expense," he said.

Operating expenses are almost completely tax-deductible, while party donations are deductible to a much lesser extent. The FDP is the junior member of Chancellor Helmut Kohl's centre-right coalition.

Mr Bieleck said prosecutors were investigating a former FDP treasurer in the state of Baden-Württemberg and an unspecified number of Daimler employees. He declined to give further details.

Daimler-Benz, Germany's largest company, declined comment. An FDP spokesman said the party's new president and treasurer in Baden-Württemberg had been in office only since January and were declining comment until they had time to acquaint themselves with the case.

No comment was immediately available from the former FDP official.

● A west Berlin civil servant has been arrested on suspicion of passing sensitive information to the former East German security police in east Berlin for 25 years, officials said yesterday, Reuter reports from Berlin. A justice department spokeswoman alleged that the 48-year-old man had more than 150 "conspiratorial meetings" with Stasi agents.

The last of four horses being lifted onto the Brandenburg Gate in Berlin to complete the restoration o: the Quadriga statue

Europe's 'open skies' may be a step closer

By Andrew Hill in Brussels

THE prospect of "open skies" over the EC should come a step closer today, when the European Commission is expected to approve the third and final package of air transport liberalisation measures proposed by Mr Karel Van Miert, transport commissioner.

Mr Van Miert hopes EC governments will reach political agreement on the proposals by the end of this year, but may face opposition in one or all of the three main areas:

● Common rules for licensing of EC carriers. Among other items, new EC airlines would have to have at least Ecu100,000 of start-up capital and be able to show they could meet actual and potential obligations for two years;

● Fares. If approved by Mr Van Miert's colleagues, the package will enshrine a "double disapproval" regime, meaning new airline fares could be blocked only if opposed by governments at both ends of the route;

● Market access. EC-licensed airlines would be able to fly anywhere in the EC without limitations on capacity, subject to certain safeguard clauses.

The plans would give carriers the right to pick up traffic on intermediate routes in the EC and offer domestic services in other member states. Such a move may upset France and the southern EC countries, fiercely protective of their domestic carriers.

The package does not deal directly with landing and take-off slots, and whether existing airlines should be forced to give up slots to new entrants. Some member states and most airlines oppose the plans on slots, covered by separate draft legislation.

Another policeman killed in renewed Serbo-Croat fighting

By Laura Silber in Belgrade

ANOTHER Croat policeman was killed yesterday in fresh clashes between Serbs and Croats in Croatia, as attempts to hold a joint session of Yugoslavia's leaders faced collapse.

The policeman was killed, and nine others wounded in fighting between Serbs and Croats in Lipik, east of Zagreb. The clashes came when Serbs fired on Croat policemen, police said.

Croats said Serbs had attacked three police stations with mortars in villages around Glina, south of Zagreb. Three police have been killed and 24 others wounded since Sunday in Croatia, with no reports of Serbian casualties. Croatia's Serbs refuse to live in a separate Croatia, following independence declarations by Croatia and Slovenia.

Talks among Yugoslavia's leaders yesterday had a new setback when representatives from Serbia and its allies refused to attend a meeting between the state presidency and presidents of the republics.

West Europe new-car sales increase by 6.7%

WEST European new-car sales rose 6.7 per cent in June to about 1.17m, supported by a further dramatic surge in German new-car demand, Kevin Done, Motor Industry Correspondent, writes.

The record level of German new-car sales is masking a serious decline in demand in most other European markets, led by steep falls in the UK, France and Spain, as well as in some smaller markets such as Finland and Sweden.

In the first half of 1991, west European new-car sales, including east Germany, rose 1.7 per cent to 7.36m from 7.23m in the first six months of 1990 (excluding the former East Germany), preliminary estimates show.

Excluding Germany, new-car sales in the rest of west Europe fell by 11.9 per cent in the first half of the year, to 4.989m from 5.66m in the same period a year earlier. Unification has fuelled the unprecedented rise in German new-car demand. Industry estimates show German new-car sales in the first half of the year, including east Germany, were 419,000, or 62 per cent up on sales of 259,000 in West Germany a year ago.

European car makers fear demand in Germany will begin to weaken in the second half of the year, after a tax increase package. The surge in German new-car sales has seriously distorted the pattern of demand across Europe, where sales last month were lower in 10 of 17 markets and higher in seven.

In the first half, sales were lower in 13 markets and higher in only four: Germany, Austria, Portugal, and Greece. New-car sales in the first six months fell 24.8 per cent in the UK, 16.6 per cent in France, 16.4 per cent in Spain, 26.7 per cent in Sweden and 38.5 per cent in Finland – the market hit hardest by recession. The opening of east Germany has added a market with the potential size of Belgium to west Europe. The old East German car-making operations for the Trabant and Wartburg ranges have been closed, and the market has been available to western car makers since July 1990.

Car registration statistics for east Germany are still unreliable and lag several months behind figures for the former West Germany. Latest figures from the German authorities show 98,856 new cars registered in east Germany in the first two months of the year, accounting for 14.6 per cent of total German new-car registrations of 662,473. Preliminary industry estimates show the unified Germany accounted for nearly a third of all west European new car sales in the first half, against little more than a fifth for West Germany alone a year earlier.

The surge in German demand is hitting the relative performance of European car makers with Volkswagen, General Motors (Opel/Vauxhall) and Ford, the leading players in Germany, making significant gains at the expense of Fiat, the Peugeot group and Renault. The Volkswagen group, which includes Audi and SEAT, raised its western European new car registrations an estimated 10.7 per cent to 1.2m in the first half.. Fiat group of Italy, which includes Lancia and Alfa Romeo, suffered an estimated 9.7 per cent drop in sales volume to 979,000.

The sales volume of the Peugeot group of France, which includes Citroën, fell an estimated 10 per cent to 840,000. Total Japanese new-car sales in western Europe have risen significantly in the first half, by an estimated 10.7 per cent, raising their share to 12.2 per cent from 11.2 per cent a year ago. Nissan has made substantial gains in continental Europe, more than compensating for its sales problems in the UK, helped by rising supplies from its UK assembly plant. Nissan nearly tripled its sales in Italy in the first six months to 8,996 (2,317 a year ago), and increased its total European sales an estimated 17.3 per cent. Main losers in Europe this year include Saab, Jaguar and Volvo.

WEST EUROPEAN NEW-CAR REGISTRATIONS*
January–June 1991

	Volume (Units)	Volume Change(%)	Share (%) Jan-Jun 91	Share (%) Jan-Jun 90
TOTAL MARKET*	7,355,000	+1.7	100.0	100.0
MANUFACTURERS:				
Volkswagen (incl. Audi & SEAT)	1,217,000	+10.7	16.5	15.2
Fiat (incl.Lancia, Alfa Romeo,Ferrari Innocenti,Maserati)	979,000	−9.7	13.3	15.0
General Motors (Opel/Vauxhall, US# & Saab)	934,000	+9.1	12.7	11.8
– Opel/Vauxhall	899,000	+10.0	12.2	11.3
– Saab**	27,000	−16.3	0.4	0.4
Ford (Europe, US# & Jaguar)	895,000	+7.0	12.2	11.6
– Ford Europe	886,000	+7.6	12.0	11.4
– Jaguar	7,000	−35.4	0.1	0.1
Peugeot (incl. Citroën)	840,000	−10.0	11.4	12.9
Renault††	710,000	−1.5	9.7	10.0
Mercedes-Benz	248,000	+12.1	3.4	3.1
Nissan	235,000	+17.3	3.2	2.8
BMW	205,000	+3.7	2.8	2.7
Toyota	189,000	+0.5	2.6	2.6
Rover†	180,000	−12.1	2.4	2.8
Mazda	156,000	+8.2	2.1	2.0
Volvo††	111,000	−18.4	1.5	1.9
Mitsubishi	105,000	+16.5	1.4	1.2
Honda†	87,000	+8.0	1.2	1.1
Total Japanese	898,000	+10.7	12.2	11.2
MARKETS:				
Germany*	2,366,000	+50.7	32.2	21.7
Italy	1,327,000	−2.7	18.0	18.8
France	991,000	−16.6	13.5	16.4
United Kingdom	802,000	−24.8	10.9	14.7
Spain	454,000	−16.4	6.2	7.5

*Includes eastern Germany in 1991. #Cars imported from the US and sold in western Europe. **GM holds 50 per cent and management control of Saab Automobile. †Honda holds a 20 per cent stake in Rover vehicle operations. ††Renault and Volvo are linked through minority cross-shareholdings.

Source: Industry estimates

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Greenspan testimony to House Banking committee

‘Compelling evidence’ of recession’s end

By Michael Prowse in Washington

MR ALAN Greenspan, chairman of the Federal Reserve, the US central bank, yesterday forecast a mild economic recovery and a steady decline in the underlying rate of inflation.

Delivering his semi-annual Humphrey-Hawkins testimony to the House Banking committee, Mr Greenspan pointed to "compelling evidence" that the US recession was over. A "variety of cyclical indicators bottomed out by early spring, and some have moved noticeably higher in recent months."

However, he warned that signs of a dynamic expansion were limited. The Fed would thus remain "alert to the chance that the recovery could be muted or even falter".

He said moderate growth during the remainder of this year should not only offset the first quarter decline in gross national product but lift output above its pre-recession peak. The outlook for inflation was "promising": the rate of price increases was expected to continue to decline next year despite the gathering pace of economic recovery.

The Fed's "central tendency" forecasts released yesterday indicated growth of 0.75 per cent to 1 per cent this year, rising to 2.25 per cent to 3 per cent next year. This is somewhat less optimistic than the Bush administration's forecasts which project growth of 0.9 per cent and 3.6 per cent respectively.

Mr Greenspan said consumer prices were likely to rise by between 3 per cent and 4 per cent both this year and next. The underlying trend, however, was down because the slowdown in inflation this year had been exaggerated by the retreat in oil prices. The outlook represents a sharp improvement from last year when higher energy prices contributed to inflation of 6.25 per cent.

As expected, Mr Greenspan signalled no change in the stance of monetary policy which remained in a "posture of watchful waiting" as economic indicators pointed increasingly toward recovery.

The Fed's provisional targets for growth of money and credit in 1992 are unchanged from this year's ranges. The target range for growth of M2, the most closely-watched monetary aggregate, is thus 2.5 per cent to 6.5 per cent.

Some of the Fed's policy-making open market committee had argued for a tighter 2 per cent to 6 per cent band for M2. However, Mr Greenspan says that with M2 and M3 within their target ranges, the existing bands provided maximum flexibility

Some members of the Fed's policy-making open market committee had argued for a tighter 2 per cent to 6 per cent band for M2. However, Mr Greenspan argued yesterday that with M2 and M3 now well within their target ranges, the existing bands provided maximum flexibility: there was ample room for either a loosening or a tightening of monetary policy in response to changing economic conditions.

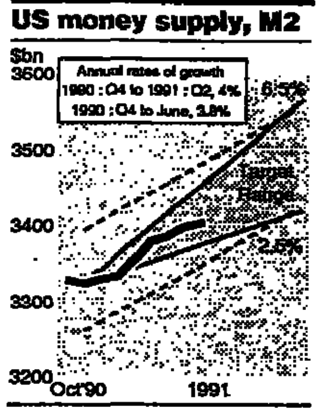
Mr Greenspan voiced concern that debt of the domestic non-financial sector – its broadest measure of credit – was right at the bottom of its 4.5 to 8.5 per cent range. Slow growth was indicative of restraint on the part of both borrowers and lenders. A further slowdown in growth of this aggregate would "warrant close scrutiny".

M2 and M3 were also somewhat below the midpoints of their target ranges but this partly reflected the restructuring of the savings and loan industry and the fact that much credit was no longer obtained directly from deposit-taking institutions.

Mr Greenspan said a rebuilding of inventories would provide the strongest boost for growth in coming months. Inventories had been drawn down aggressively in recent quarters and with inventories now "quite lean", sales increasingly would have to be satisfied out of new production.

He noted that recessions had typically been followed by appreciably stronger growth than currently forecast by the Fed. Many factors, however, argued for a mild recovery: the recession itself had been shallow, creating little excess capacity; federal and state spending was falling in real terms; the softness of real estate markets was certain to restrain construction spending which often leads recoveries; consumer spending was unlikely to grow faster than personal income because households would avoid reducing saving rates below already-low levels.

US money supply, M2



MONETARY AND CREDIT AGGREGATES GROWTH TARGETS
Fourth quarter – fourth quarter % change

	1990	1991	*1992
M2	3–7	2½–6½	2½–6½
M3	1–5	1–5	1–5
Debt	5–9	4½–8½	4½–8½

* Provisional

ECONOMIC PROJECTIONS 1991 AND 1992

	Federal Reserve Range	Central tendency	Bush Admin
1991			
Percent change			
fourth quarter to fourth quarter			
Nominal GNP	3¾–5¾	4½–5¼	5.3
Real GNP	½–1½	¾–1	0.9
Consumer price index	3–4½	3¼–3¾	4.3[1]
Average level in the fourth quarter, per cent			
Civilian unemployment rate	6½–7	6¾–7	6.6[2]
1992			
Per cent change			
fourth quarter – fourth quarter			
Nominal GNP	4–6¾	5½–6½	7.5
Real GNP	2–3½	2¼–3	3.6
Consumer price index	2½–4¼	3–4	3.9[1]
Average level in the fourth quarter, per cent			
Civilian unemployment rate	6–6¾	6¼–6½	6.5[2]

[1]. CPI-W FOMC forecasts are for CPI-U[2]. Per cent of total labour force, including armed forces in the United States

US credit usage ‘changing sharply’

By Michael Prowse

THE US financial system is changing rapidly with recent patterns of credit usage representing a striking departure from the 1980s, Mr Alan Greenspan, the Federal Reserve chairman, said yesterday.

The ratio of domestic debt to gross national product, which soared in the 1980s, was showing signs of flattening out, particularly in the private sector. Banks were playing a smaller role as suppliers of credit. Companies were relying more on equity finance.

Deregulation, technological advances and financial innovations had caused a temporary surge in borrowing in the 1980s as borrowers moved to a higher desired equilibrium ratio of debt to net worth. But that surge could now be tapering off, implying the possibility of sluggish debt growth for some time.

If such adjustments were in train, slow debt growth "should not be read as implying that credit was insufficient to support satisfactory economic performance".

Mr Greenspan noted that the 1980s had seen a rapid build-up of consumer durables, non-residential structures and other physical assets that are typically financed out of debt. With stocks of such assets high and more restrictive tax laws, credit demands were likely to remain "relatively damped".

Changes in the way companies chose to finance activities had shown up dramatically in data for the second quarter. For the first time in eight years, equity issues had exceeded equity retirements.

Mr Greenspan said the "credit correction" was likely to continue with the 1980s debt build-up in retrospect seeming an "aberration". One aspect of changed attitudes was the increased attention paid by regulators and financial markets to the capital positions of banks. The shift to greater prudence was "overwhelmingly a healthy development".

But in some areas credit retrenchment had gone too far. In some cases, lenders were too cautious and "some creditworthy borrowers were unable to access credit on reasonable terms". New loans were arguably too scarce even in the troubled real estate market.

Mr Greenspan, however, hinted that the "credit crunch" could ease. Banks had gained improved access to capital markets, leaving them better able to lend. While their role as creditors was declining because of changes in technology and financial innovations.

US state employees without pay in stalemate

By Peter Riddell in Washington

TENS of thousands of employees of US state governments are not being paid because of stalemates in fixing budgets.

Half a dozen states, including California, Illinois, and Pennsylvania, have not finalised budgets for the fiscal year which started on July 1.

In some cases they are able to keep state services going by drawing on reserves but in others they have had to suspend pay cheques.

In Illinois, more than 10,000 state employees have not been paid and Pennsylvania will not be able to pay its 53,000 state workers this Friday unless there is a budget agreement.

The arguments are mainly over tax increases to deal with record fiscal deficits and attempts by Republican governors to cut the scope of compensation insurance for workers.

In California, Governor Pete Wilson has refused to sign a budget unless it includes a cut in workers' compensation coverage, restricting claims made on the basis of stress, as well as a proposed increase in income tax for the better-off.

Menem bans pay rises linked to inflation

By John Barham in Buenos Aires

ARGENTINA'S President Carlos Menem has taken the politically highly sensitive step of banning wage increases linked to inflation rates, in a bid to bolster his government's anti-inflation policies.

President Menem has decreed that new pay awards must be based on productivity increases, to avoid fuelling inflation. Collective wage contracts must now be vetted by the Labour Ministry.

On April 1, Argentina introduced a rigid anti-inflation strategy; the exchange rate for the austral was tied to the US dollar and the central bank was forbidden from covering fiscal deficits by printing money. The policy also banned price linking, but did not refer to wage indexation.

However, inflation has increased faster than expected, reaching 11.8 per cent over the past three months, with a further 2.5 per cent expected for July. Such persistent inflation is threatening the fixed exchange rate.

Wage increases linked to inflation have specifically fuelled Argentina's chronic economic problems in recent years.

Unions and employers are now due to begin a round of wage bargaining against a background of rising labour militancy and increased competition from lower-priced imports.

With political tension rising, due to crucial mid-term elections in August, President Menem's decision to ban index-linked wage increases is bound to run into stiff opposition.

● The Falkland Islands legislative council has expressed grave concern over rumours that HMS Endurance, the only Royal Naval vessel permanently stationed in the South Atlantic, will be taken out of service without replacement, writes Andrew Jack.

The council said taking the ship out of service would send a signal to Argentina that Britain was losing interest in the Island, as it did in 1981 before the Falklands were invaded.

However, the ministry of defence said Endurance, which is due to be decommissioned in 1995, was merely undergoing routine maintenance and was only being examined in the light of more general defence reductions.

It also stressed that there is a garrison on the island to provide defend against future aggression.

Argentine air force officer sacked in corruption drive

By John Barham

ARGENTINA'S President Carlos Menem, plagued by allegations of corruption in his government, yesterday ordered the removal of a top air force officer allegedly implicated in a corruption scandal.

Mr Menem ordered the removal of Brigadier Héctor Sambrizzi, the air attaché in Washington, alleged to be involved in improperly awarding a defence contract.

Previously, Mr Menem and Mr Erman González, defence minister, had shrunk from taking action against Brig Sambrizzi after the air force punished him earlier this month with 60 days' house arrest.

Eight other senior air force officers plus Brig-Gen José Juliá, air force commander, and his former second in command Brig Tomás Rodríguez, are allegedly implicated in bribery scandals involving air force contracts.

Earlier this month, Brig Juliá fired Brig Rodríguez for allegedly sending a civilian judge a letter implicating officers in overriding financial controls on awarding contracts. The air force is already under investigation by a civilian judge acting on evidence that the force operated a major smuggling operation at Buenos Aires airport.

The removal of Brig Sambrizzi was virtually imposed on Mr Menem by second-rank officers, reflecting anger lower in the ranks that not enough had been done to control corruption.

At the weekend, Mr Luis Moreno Ocampo, the chief prosecutor, said Argentina's antiquated legal system made it impossible to win convictions for corruption.

Yesterday, a federal judge ordered the release from custody of Mr Mario Caserta, a former government official and organiser of Mr Menem's 1989 election campaign, held since April on suspicion of involvement in a drug money laundering scheme.

He was released on bail of $100,000.

He is accused along with Mrs Amira Yoma, Mr Menem's sister-in-law and her ex-husband Mr Ibrahim al-Ibrahim, the former customs chief at Buenos Aires airport.

Summit declaration urges nations to take steps to prevent the build-up of 'disproportionate arsenals'

Leaders call for register of international arms sales

By Robert Mauthner, Diplomatic Editor

THE LEADERS called yesterday for comprehensive international arms control measures by supplier and recipient countries, aimed, above all, at preventing another conflict like the Gulf war.

British officials called the declaration one of the strongest ever issued by such an influential international forum. It covers conventional arms and nuclear, biological and chemical weapons.

Mr John Major, Britain's prime minister, initiated one of its main proposals, establishment of an international register of arms transfers. However, he failed to give the Group of Seven the specific task of following up the proposals.

That suggestion was the subject of an 11-hour disagreement due mainly to the determined opposition of President François Mitterrand to any procedures which would give the G7 a permanent institutional role. The latter argued that there were enough institutions dealing with arms control.

British officials, nevertheless, expressed satisfaction with a phrase in the declaration expressing the intention of the member states to give their "continuing close attention" to the arms control measures they had proposed.

On conventional arms, the leaders accepted that many states depended on arms imports to assure a reasonable level of security and noted that the "inherent right of self-defence" was recognised in the United Nations Charter.

"But the Gulf conflict showed the way in which peace and stability can be undermined when a country is able to acquire a massive arsenal that goes far beyond the needs of self-defence and threatens its neighbours," they said. "We are determined to ensure that such abuse should not happen again." Progress could be made if all states applied the three principles of transparency, consultation and action. As a step in this direction the leaders supported setting up "a universal register of arms transfers" under UN auspices. This would alert the international community to any state's attempt to build up holdings of conventional weapons beyond "a reasonable level," the declaration said. It made no attempt, however, to define reasonable levels.

Information should be provided by all states on a regular basis after transfers of arms had taken place. Consultations between leading arms exporters, with the aim of setting guidelines for the transfer of conventional weapons, should be strengthened on lines proposed at the recent meeting of the five permanent members of the UN Security Council in Paris.

All nations should take steps to prevent "disproportionate arsenals" being built up. Countries should refrain from arms transfers which would be destabilising or would exacerbate existing tensions. Special restraint should be exercised in transferring advanced technology weapons.

Excessive spending on arms diverted resources from the overriding need to tackle economic development, the leaders said. "It can also build up large debts without creating the means by which these may be serviced." They therefore welcomed the recent decisions of donor countries and international lending organisations such as the IMF and the World Bank to take account in their aid programmes of the level of military spending by recipient countries.

Expressing deep concern about the proliferation of nuclear, biological and chemical weapons, the declaration said that Iraq had to by Security Council Resolution 687, setting out requirements for the destruction, removal or neutralisation of these categories of weapons, as well as missile capabilities.

The seven pledged themselves to work for an equitable and stable regime "based on a balance between nuclear proliferation and the development of peaceful uses of nuclear energy."

They reaffirmed the importance of the nuclear non-proliferation treaty, called on all non-signatory states to subscribe to this agreement, which should be extended beyond its 1995 renewal date, and appealed to all non-nuclear weapon states to submit their activities to the safeguards of the International Atomic Energy Agency.

The leaders also looked forward to a strengthening of the international biological weapons convention at a review conference in September, and early negotiation of a comprehensive and verifiable convention banning chemical weapons. They reaffirmed their intention to become original parties to the chemical convention.

Stressing that controls on biological and chemical weapons exports must also be strengthened, the leaders said their aim was a total and effective ban on both categories of weapons.

Sanctions to stay against Baghdad

By Robert Mauthner

SANCTIONS will be maintained against Iraq until it has implemented all the relevant United Nations Security Council resolutions, the G7 leaders warned yesterday.

Mr Douglas Hurd, UK foreign secretary, also made clear that Britain would not hesitate to join the US and France in military action against Iraq, if it did not fulfil the Security Council's demand to report, and eventually destroy, all its nuclear activities.

"I hope that the Iraqis are not in any doubt that we will not allow them to develop nuclear facilities," he told a news conference. "We are going to make sure, one way or another, that Iraq will not become a nuclear power."

However, Mr Hurd said that the leaders had had no explicit discussion of the Iraqi nuclear issue. Before any action was taken, the information gathered by International Atomic Energy Agency inspectors had to be evaluated by the UN.

Welcoming President George Bush's latest initiative to send his Secretary of State, Mr James Baker, on a new Middle East peace mission, the leaders said such a peace should be based on UN Council resolutions 242 and 338, and "the principle of territory for peace," which has never been accepted by Israel.

In a political declaration adopted yesterday, they supported the concept of a peace conference involving parallel and direct negotiations between Israel and representative Palestinians, on the one hand, and Israel and the Arab states on the other.

The leaders urged all parties to the dispute to adopt reciprocal and balanced confidence-building measures including, in particular, suspension of the Arab boycott of companies trading with Israel and the Israeli policy of building settlements in the occupied territories.

Sharp economic recovery discounted

Finance ministers yesterday predicted there would be no sharp rebound when the world economic recovery got under way in the second half of this year, writes Rachel Johnson. In the UK signs of recovery were still hesitant, while in the US there was still doubt whether the recovery had come or was on its way.

Recent activity and output data were ambiguous. Unemployment's rise in G7 countries was disappointing and was not due to start falling until 1992 as unemployment traditionally lags changes in output by six to nine months.

Summiteers backpedal on the environment

By Rachel Johnson, Economics Staff

THE environment was, as promised, debated at the G7 summit alongside aid to the Soviet Union and the global economy, but early agreement on two vital issues – tropical forests and greenhouse gas emissions – proved elusive.

Indeed, the G7's landmark environmental initiative – a pilot project for the Brazilian rainforest, commissioned at last year's Houston summit and costed at $1.6bn (£1bn) over six years by the World Bank, Brazil and the EC – is running into opposition from the US and Japan.

The EC delegation, headed by Mr Laurens Brinkhorst, from the environmental directorate, wants the G7 to commit a start-up sum of $50m before the end of the summit. This figure is intended to trigger collaboration between the industrialised and developing worlds before next year's Earth summit on environment and development, to be held in Rio de Janeiro.

The Germans are keen to see the project win approval and financial support, and have been bringing it up in bilateral meetings with the US. Chancellor Helmut Kohl reported back that the US had shown a degree of reluctance to support it – the $1.6bn price tag having raised several G7 eyebrows – while British officials have been non-committal.

This backpedalling is in spite of pre-summit signs that the G7 would agree funding for the programme, regarded by environmentalists as a sea-change in Brazil's policies as it acknowledges the damaging impact of traditional methods of Amazon development.

Last month Brazil reversed its policy on debt-for-nature swaps, allowing up to $500m of resources for the project to be found by the cancellation of Brazilian debt for local currency.

However, Mr John Major, the British premier and summit host, has realised any grand G7 gesture on the environment could pass unnoticed in the fuss surrounding President Mikhail Gorbachev.

Officials hint that he feels it preferable to offer Brazil funds at the Rio conference, not at the London summit. This would give the G7 time to consider how (as well as whether) to endorse the environmental programme.

Disappointment over the project has been heightened by the US's refusal to commit itself to a target for greenhouse gas emissions; it is the only G7 country that has not yet done so. But there are hints that a commitment from the US might also be reserved for Rio.

World Bank and IMF ties on offer to Moscow

By Peter Norman, Economics Correspondent

GRANTING Moscow a special relationship with the International Monetary Fund and World Bank is likely to be the G7's most concrete response to President Mikhail Gorbachev's request for help in Soviet economic reform.

As heads of government and finance ministers met yesterday to prepare for today's historic meeting with the Soviet leader, a consensus emerged that the formation of ties between Moscow and the two Washington-based financial bodies would give Mr Gorbachev a summit "success" and help prepare integration of the Soviet Union into the world economic system.

Mr David Mulford, US Treasury undersecretary for international monetary affairs, said: "It is a major opportunity for the Soviet Union." A Japanese government official said the G7 leaders had agreed the Soviet Union should have a special relationship with the IMF.

This special relationship, or associate membership, would give the Soviet Union access to technical assistance and expertise to handle the difficult transformation of its economy to a market-based system. It would also open the way for continuing dialogue with the IMF and World Bank on economic reform.

Some G7 countries, notably Germany, see such a step as a prelude to full IMF membership for the Soviet Union.

Mr Mulford said there was agreement in the G7 that Moscow needed fundamental economic reform. Once this started, other nations and private investors would be encouraged to give support.

However, G7 officials continue to voice concern about whether Soviet authorities fully understand what is involved in a move to a market economy.

A 23-page letter detailing planned Soviet economic reforms, delivered to the G7 last week, triggered alarm as it contains no coherent macro-economic programme, has left the relationship between the republics and central government unclear, and suggests the Soviet authorities have only a hazy idea of what is involved in a mixed economy.

Some parts of the proposed reforms have won a more positive reception. Mr Theo Waigel, the German finance minister, has welcomed plans to allow foreign groups to invest up to 100 per cent of the capital of companies in the Soviet Union, and proposals for a large-scale programme to convert Soviet arms manufacturing facilities to peaceful uses.

GERMANY is growing increasingly resentful that it is carrying much of the cost of western help to east and central Europe, writes Peter Norman.

Chancellor Helmut Kohl told the summit yesterday that Germany had contributed 40 per cent of financial transfers from the Group of 24 industrialised countries to eastern and central Europe. This could not continue and fairer financial burden sharing was needed.

THREE GO TO THE SUMMIT: Stepping out with Mr Major (centre) are Chancellor Kohl (left) and Mr Mulroney

Glyn Genin

SENIOR MOSCOW OFFICIALS WANT WESTERN SUPPORT TO DEPEND ON DEAL WITH REPUBLICS

Soviet ministers hope for Gorbachev grilling

By John Lloyd and Anthony Robinson

SENIOR Soviet government ministers, alarmed by growing financial instability, hope G7 leaders will take a tough line today when they meet Mr Mikhail Gorbachev, the Soviet president.

They want the heads of government to stipulate that long-term support will depend on working out a relationship between the union and republican governments which would give the centre authority over monetary and fiscal policy, and clearly divide responsibilities between them.

The ministers believe these issues have been compromised and blurred in the version of the anti-crisis plan which Mr Gorbachev signed last week with leaders of 10 of the 15 republics – particularly by conceding that the republics do not have to pay a federally imposed tax.

Opposition surfaced last week in Moscow, when Mr Valentin Pavlov, prime minister, and Mr Victor Gerashchenko, head of the State Bank, both complained publicly that this left the country without central control of spending.

Opposition now takes the form of discreet pressure on G7 leaders to emphasise to Mr Gorbachev that there can be no western assistance without Soviet policy coherence – in the hope that this will convince the Soviet leader to take a tougher line with the republics on his return to Moscow.

The pressure, a common enough mechanism among western countries, is unprecedented for the Soviet Union and is a sign that it is already learning the rules of the international financial game.

The government's willingness to have foreign agencies assist in Soviet reform was underscored yesterday by Mr Vladimir Shcherbakov, the first deputy prime minister. He said he hoped the G7 would agree to International Monetary Fund and World Bank teams working with Soviet experts on a range of issues.

"We have proposed setting up groups of experts to examine plans for privatisation, conversion of military industry, rouble convertibility, improvement of financial institutions – all of these are open for discussion with foreign experts and we will keep nothing from them."

However, he was doubtful about associate membership of the IMF, or any "special status" short of full membership. "It's a bit like being invited to someone's house and then being asked to stand in the hall while the hosts check your dress and deportment."

The Soviet minister confirmed there was no clear political consensus behind radical economic transformation and noted the continuing strength of conservatives within the bureaucracy, the Communist party and in the population at large. He underlined that "Gorbachev is looking first of all for political help.... because we don't want our conservatives to get out of control."

In a strong defence of the government's commitment to market-oriented reform and democracy, Mr Shcherbakov said "the anti-crisis plan includes most elements contained in last year's IMF-World Bank report.

"Gorbachev has reshaped the country. We've just passed a law saying all forms of private property are possible and equal, as well as a company law and a new tax law which bestow equal rights on state and private property. We have an anti-trust law, a law on foreign investment, an arbitration court and we're going ahead to split up state enterprises."

Over the next 12 months another 15 industrial ministries would be liquidated, following 20 closed last year.

UK fails to win full support on debt plan

By Ivo Dawnay and Peter Norman

BRITAIN yesterday failed to secure full support for a generous package of debt relief measures for the world's poorest countries. Mr Norman Lamont, the chancellor, said two countries had reservations about the plan, although he hoped the Paris Club of western creditor nations would be able to follow it up.

Eventual agreement on the so-called Trinidad terms would be a personal triumph for Mr John Major, the prime minister. The plan, hammered out at the Commonwealth finance ministers' meeting in Trinidad last September, seeks to build on preferential terms agreed at the Toronto G7 summit in 1988 for 22 less developed countries, largely from sub-Saharan Africa. It involves up to $30bn in outstanding country-to-country debts.

Under Mr Major's initiative, countries that accepted IMF restructuring programmes would be offered generous debt forgiveness on their liabilities to the Paris Club. The proposals also offer the consolidation of all outstanding debt and its reduction by up to two-thirds. This would be a marked increase on the preferential terms offered on some 30 per cent of outstanding debt under the Toronto terms.

Both the US and Japan have expressed strong reservations – largely on the grounds that the plan would set unwelcome precedents for other debtor nations.

Stronger role seen for United Nations in keeping the peace

THE FOLLOWING are excerpts from the Group of Seven political communique:

With the east-west confrontation of the last four decades behind us, the international community must build on this new spirit of co-operation not only in the Middle East but wherever danger and conflict threaten or other challenges must be met....

A revitalised United Nations will have a central role in strengthening the international order. We commit ourselves to making the UN stronger, more efficient and more effective in order to protect human rights, to maintain peace and security for all and to deter aggression. We will make preventive diplomacy a top priority to help avert future conflicts by making clear to potential aggressors the consequences of their actions. The UN's role in peacekeeping should be reinforced and we are prepared to do this strongly....

We note that the urgent and overwhelming nature of the humanitarian problem in Iraq caused by violent oppression by the government required exceptional action by the international community, following UN Security Council Resolution 688. We urge the UN and its affiliated agencies to be ready to consider similar action in the future if the circumstances require it....

We would like to see moves to strengthen the co-ordination, and to accelerate the effective delivery, of all UN relief for major disasters. Such initiatives, as part of an overall effort to make the UN more effective could include:

● Designation of a high level official, answerable only to the UN secretary-general, who would be responsible for directing a prompt and well-integrated international response to emergencies, and for co-ordinating the relevant UN appeals....

● Improvement in the arrangements whereby resources from within the UN system and support from donor countries and NGOs (non-governmental organisations) can be mobilised to meet urgent humanitarian needs in time of crisis....

We intend to maintain sanctions against Iraq until all the relevant resolutions of the Security Council have been implemented in full and the people of Iraq, as well as their neighbours, can live without fear of intimidation, repression or attack....

As for the Iraqi people, they deserve the opportunity to choose their leadership openly and democratically....

We look forward to the forthcoming elections in Kuwait and to an improvement of the human rights situation there and in the region....

We confirm our continuing support for the American initiative to advance the peace process (in the Middle East), which we believe offers the best hope of progress towards a settlement. We urge all parties to the dispute to adopt reciprocal and balanced confidence-building measures and to show the flexibility necessary to allow a peace conference to be convened on the basis set out in this initiative. In that connection we believe that the Arab boycott should be suspended as should the Israeli policy of building settlements in the occupied territories....

We express our willingness to support the development of economic co-operation among the countries of the Middle East on the basis of liberal policies designed to encourage the repatriation of capital, an increase in investment and a decrease in obstacles to trade. Such policies should be accompanied by comprehensive long-term efforts to bring about more stability for the Middle East and the Mediterranean....

We have a strong interest in the success of market reforms and democracy in central and eastern Europe and we commit ourselves to full support for these reforms....

Our support for the process of fundamental reform in the Soviet Union remains as strong as ever. We believe that new thinking in Soviet foreign policy, which has done so much to reduce east-west tension and strengthen the multilateral peace and security system, should be applied on a global basis. We hope that this new spirit of international co-operation will be as fully reflected in Asia as in Europe....

It is for the peoples of Yugoslavia themselves to decide on their future. However, the situation continues to cause great concern.... We call for a halt to violence, the deactivation and return of military forces to barracks and a permanent ceasefire.... We welcome the efforts of the European Community and its member states in assisting in the resolution of the Yugoslav crisis.

We therefore support the dispatch of EC monitors to Yugoslavia, within the framework of the CSCE emergency mechanism. We will do whatever we can, with others in the international community, to encourage and support the process of dialogue and negotiation in accordance with the principles enshrined in the Helsinki Final Act and the Paris Charter for a new Europe, in particular, respect for human rights, including rights of minorities and the right of peoples to self-determination in conformity with the Charter of the United Nations and with the relevant norms of international law....

We welcome the positive developments in South Africa, where the legislative pillars of apartheid have at last been dismantled. We hope that these important steps will be followed by the de facto elimination of apartheid and improvement in the situation of the most impoverished among the population of South Africa....

We are concerned that the foundation for a new non-racial South Africa will be undermined by mounting social problems and declining economic prospects for the majority of the population.... There is an urgent need to restore growth to the economy to help reduce inequalities of wealth and opportunity.

South Africa needs to pursue new economic, investment and other policies that permit normal access to all sources of foreign borrowing. In addition to its own domestic efforts, South Africa also needs the help of the international community, especially in those areas where the majority have long suffered deprivation: education, health, housing and social welfare. We will direct our aid for these purposes.

We call for the immediate and unconditional release of all hostages wherever they may be held and for an accounting of all persons taken hostage who may have died while being held....

We reaffirm our condemnation of all forms of terrorism. We will work together to deter and combat terrorism by all possible means within the framework of international law and national legislation, particularly in the fields of international civil aviation security and the marking of plastic explosives for the purpose of detection....

We call on the leaders of the other nations to join us in our efforts to make a practical and sustained contribution to the cause of peace, security, freedom and the rule of law, which are the preconditions for trying to bring about greater justice and prosperity throughout the world.

INTERNATIONAL NEWS

IAEA calls emergency talks on Iraqi N-programme

By **David Fishlock**, Science Editor, and **Michael Littlejohns** in New York

AN EMERGENCY meeting of the International Atomic Energy Agency's governing board in Vienna has been called tomorrow to discuss Iraq's non-compliance with UN resolutions requiring full disclosure of its nuclear facilities.

The IAEA's safeguards team, which recently visited Iraq as part of the UN's investigations into the country's nuclear programme, says it has found two previously undisclosed facilities which it believes were planned for uranium enrichment using a domestically developed electromagnetic process.

In New York, UN officials said yesterday that President Saddam Hussain still has not given a full accounting of Iraq's nuclear capability and that investigators are determined to continue their search.

Dr Hans Blix, the head of the International Atomic Energy Agency and a UN under secretary general, and Mr Rolf Ekeus, chairman of the UN special commission set up to supervise the disposal of Iraq's weapons of mass destruction, testified to inconsistencies in Iraqi reporting to a closed session of Security Council members.

Dr Blix said the Iraqi claim to be developing only a system for nuclear-generated electricity was "simply not plausible". To produce a gramme of enriched uranium would require five times the energy likely to be retrieved from it, he said, adding, "there is no cost justification".

Angered by Iraq's duplicity, the US, Britain and France are preparing a tough new mandatory resolution designed to reinforce provisions in the ceasefire terms which require Baghdad to turn over all its nuclear weapons-making material, ballistic missiles and chemical and biological weapons for destruction.

The concealed uranium enrichment facility, which was found near al-Sharqat, between Mosul and Tikrit in northern Iraq, was cited by Dr Blix to demonstrate the Iraqis' failure to "come clean".

According to Professor Maurizio Zifferero, the scientist in charge of of the UN inspection team, the plant was identical to one the Iraqis did report at Tarmia, near Baghdad, and could probably have produced a weapon within 18 months.

Dr Jay Davies, a US nuclear expert, estimated that Iraq had spent up to $8b to build nuclear enrichment facilities similar to the Manhattan Project which produced some of the material for the Hiroshima atomic bomb. Electromagnetic isotope separation is employed in huge machines called calutrons.

This process has been rapidly superseded elsewhere in the world by gaseous diffusion as a faster and cheaper process for enriching uranium, although some wartime calutrons developed at Oak Ridge, Tennessee, continued to be used to enrich other materials.

Both electromagnetic process plants discovered by IAEA inspectors are empty and both have been bombed, the agency said.

Iraq, as a signatory of the Nuclear Non-Proliferation Treaty, which pledges nations not to develop nuclear weapons, has consistently maintained its nuclear programme is for electricity production.

Regular safeguards inspections for many years before the Gulf war had concentrated on verifying that known Iraqi stocks of highly enriched uranium were still in the form of reactor fuel.

Iraq has obtained reactor fuel of 93 per cent enrichment from France, and of 80 per cent enrichment from the Soviet Union. In theory, either could be used as explosive for a nuclear weapon, although any such diversion would be readily detectable. Likewise, any attempt to convert the reactor fuel into plutonium and its diversion for use as nuclear explosive would be detectable.

In a letter to the UN on July 7, Baghdad reaffirmed its commitment to the treaty and insisted that nothing had been done that was not in compliance with its terms. The Iraqis also claimed to have begun to destroy their own nuclear capacity without waiting for the UN to do it.

Arabs fail to agree on joint force

By Our Middle East Staff

THE SIX Gulf states, Egypt and Syria failed to reach agreement yesterday on the formation of a joint security force to defend Kuwait, but they agreed that individual countries could seek military help from their allies when necessary.

Despite the failure to establish a joint force, foreign ministers from all eight countries said they were satisfied with the results of their two days of discussions in Kuwait. Prince Saud al-Faisal, the Saudi foreign minister, said: "We have an agreement."

The failure to agree on a multinational Arab force is certain to disappoint the US and other western countries whose armies drove Iraq out of Kuwait in February.

It had been hoped that a force would be established on the basis of the Damascus declaration of March 6, under which the eight Arab government agreed to the joint defence of Kuwait.

Attempts to flesh out the declaration have been fraught with disagreements between the Gulf states and Egypt and Syria over the cost and composition of the proposed Arab force.

The Gulf states have, in particular, developed cold feet about the possibly costly presence of forces from their sister Arab nations. Egypt and Syria have also demurred over Kuwait's apparent preference to underwrite its security with western military guarantees.

Kuwait and other Gulf states have appeared increasingly drawn towards having some form of commitment from Egypt and Syria to deploy forces rapidly to the area in times of crisis, rather than to having a permanently stationed force.

Kuwait's own army is in a state of disarray and until an agreement is put into effect, the emirate is relying for its defence on the presence of some 10,000 Saudi troops and a token force of 5,000 Egyptians and 1,000 Syrians.

Hong Kong's share index breaks record

By **John Elliott** in Hong Kong

HONG KONG'S stock market yesterday shrugged off nearly four years of depression when the local Hang Seng index touched a record level of 4,000 and closed for the first time since the 1987 world markets crash above its pre-crash high of 3,949.73.

Bullish prospects for residential property prices fuelled general optimism which has built up since a deal was announced with China early this month on a proposed HK$100bn (£7.4bn) airport.

Optimism has also been boosted by improved prospects for the US extending China's most favoured nation status, which is important for Hong Kong's economic success, and by an absence of attacks and criticism from Peking.

The index reached 4,000.64 during the afternoon and closed 52.55 points up on the day at 3,997.67, which was 48 points above the pre-crash high. Trading was heavy at HK$2.63bn.

The close was nearly 9 per cent up on a level of 3,668 reached just before a Sino-British agreement on the airport was secretly initialled in Peking on June 29. The market started moving upwards the next day when, analysts report, mainland Chinese companies speculated on both the stock and futures market in advance of an official announcement on July 4.

This has led to accusations that Chinese companies were indulging in a form of politically-based insider dealing, but the colony's market regulators say they do not have the power to conduct an inquiry.

Analysts see 4,200 on the index as the next target and many are forecasting that this could be reached in two months' time just before the colony's company results season in the autumn.

Since the 1987 crash the market has edged up several times towards its peak but has been knocked back by events normally associated with China, which regains sovereignty in 1997 and has a big impact on local confidence. It reached 3309 in the run up to China's 1989 Tiananmen Square crisis, when there was false optimism that liberal reformers might increase their power in Beijing, and it climbed to 3559 last July just before the Gulf crisis.

Since then it has been dogged by worries about the airport project and MFN, although it hit 3870 in April when Mr Douglas Hurd, Britain's foreign secretary, visited Beijing in an attempt to solve the airport crisis.

See World Stock Markets

Tokyo's top brokers suffer more pullouts

By **Emiko Terazono** in Tokyo

MORE than 100 local governments and authorities have indicated that they will suspend indefinitely fund management dealings with Tokyo's top four brokerage houses which yesterday completed their four days of punishment for having compensated select clients for trading losses.

The four, Nomura, Nikko, Daiwa and Yamaichi say the local government suspensions will have a limited impact on their profitability.

The Tokyo Stock Exchange said yesterday it saw no reason to reinvestigate Nomura's trading of stocks in Tokyu, a railway company, during 1989. Exchange officials said that an investigation at the time found no evidence of stock price manipulation.

Mr Minoru Nagaoka, president of the TSE said an investigation in 1989 found no evidence that Nomura had manipulated share prices of Tokyu.

Mr Nagaoka said many brokerages had traded in Tokyu shares at the height of the bull market, and that a particular brokerage could not be pinpointed as aggressively trading in Tokyu.

Tokyu's share price fluctuated between Y1,700 (£7.58) and Y1,900 at the beginning of 1989, but reached an all-time high of Y3,070 in November that year. Tokyu said recently it would suspend dealings with Nomura, its lead underwriter, after allegations it had traded Tokyu stocks on behalf of a gangster group.

Nomura was also embarassed yesterday, by a former official's involvement in an alleged embezzlement of Y1bn. The company said the former official was now under police investigation.

Angola offensive

A joint MPLA-Unita force of 6,000 men has mounted an offensive in Angola's oil rich Cabinda territory, a Kinshasa-based separatist movement said yesterday, Reuter reports from Kinshasa.

The Cabinda Enclave Liberation Front said the well-armed force was trying to flush out FLEC guerrillas before UN observers arrive to monitor Angola's peace accord.

Prince Norodom Sihanouk speaks to reporters on his arrival in Beijing yesterday. Parties to Cambodia's civil war began two days of talks, trying to compromise on a United Nations plan to end 12 years of fighting. The meeting of Cambodia's Supreme National Council brings together the Phnom Penh government of Prime Minister Hun Sen, leaders of the Chinese-backed Khmer rouge, and two smaller guerrilla groups. The first public visit to China by an official from Phnom Penh's Vietnamese-backed government has raised hopes that China is ready to push its Khmer Rouge clients further towards compromise over the UN plan.

UN puts Bangladesh flood costs at $1.78bn

By **William Dullforce** in Geneva

THE COST of reconstructing and rehabilitating the area of Bangladesh devastated by a cyclone at the end of April is put at $1.78bn by a United Nations' task force which reported yesterday to potential donor countries.

A disaster of exceptional intensity, even in a country accustomed to natural calamities, the cyclone is estimated to have killed 140,000 people and affected the lives of some 12m.

Mr Saifur Rahman, Bangladesh's finance minister, said his government had endorsed the UN report and aimed at completing the reconstruction by 1995. He hoped to convince governments of the authenticity of the report and of the Bangladesh government's ability to manage it effectively.

Some diplomats have voiced concern about corruption which allegedly led to the misuse of international aid sent to Bangladesh after previous natural disasters. Mr Rahman said his government had declared war on "institutionalised corruption" of the previous government.

So far for the reconstruction of the coastal area wrecked by the cyclone Bangladesh has generated $400m from its own resources and received more than $400m from donor countries and agencies.

Almost $1bn more would be needed to be the costs estimated by the UN task force.

Its report allocates top priority to the repair of flood control and irrigation systems without which the entire productive capacity of the coastal area remains vulnerable. More than $800m would be allocated for rebuilding the physical infrastructure with a further $333m needed for health, water, education and housing.

India acts to keep rail network in profit

By **K.K.Sharma** in New Delhi

PASSENGER fares for all classes of rail travel in India were raised sharply by 15 to 20 per cent and freight rates were increased by 10 per cent in the annual budget for Indian Railways presented to parliament yesterday. Indian Railways is the largest single government-owned enterprise.

The increases reflect the determination of the new administration of Mr P.V. Narasimha Rao, to take hard decisions to improve the working of public sector undertakings and the economy in general. The government won a vote of confidence in parliament on Monday.

The higher fares and freight rates will mop up an additional Rs 5.84bn (£139m) in revenues and help make the railways financially viable as well as contribute towards the general resources of the country.

The government is under pressure from the International Monetary Fund, from which it is seeking a $5bn-$7bn loan, to reduce its annual fiscal deficit.

Mr Jaffar Sharief, the minister for railways, said that, after the additional revenue from the higher fares and freight rates was taken into account, the railways would show a surplus of Rs 2.25bn which is substantially more than last year's planned surplus of Rs 1.55bn.

Last year, the railways fell short of the target of revenue-earning freight traffic of 325m tonnes by 9m tonnes. This reflects the reduced demand for freight owing to a slower pace of industrial growth.

● Kashmir police said yesterday at least 12 people were feared drowned after a crowd of villagers, trying to cross a river to flee security force raids, crammed onto a boat which sank.

Mandela wins right to appeal

By **Patti Waldmeir** in Johannesburg

MRS Winnie Mandela, wife of the African National Congress president, Mr Nelson Mandela, was yesterday granted leave to appeal against her conviction on four charges of kidnapping and accessory to assault.

Mr Justice Michael Stegmann, the trial judge who branded Mrs Mandela a "calm, composed, deliberate and unblushing liar" when he sentenced her to six years in prison last May, said yesterday that there was a "reasonable prospect" that her appeal would succeed.

He said weaknesses in the prosecution case had caused him to base his judgment largely on inferences. It was possible, he said, another court would draw different inferences from the same evidence.

The case will now go to the Appeal Court in Bloemfontein, where it could be heard within the next six to 12 months.

Hint given of softer talks stance

By **Hugh Carnegy** in Jerusalem

THE FIRST official hint that Israel might soften one of its main objections to US proposals for Middle East peace talks following acceptance of the plan by Syria was floated in Jerusalem yesterday.

An official told foreign journalists Israel might accept a passive UN observer presence at negotiations if that were the only obstacle to talks proceeding. So far Mr Yitzhak Shamir, the prime minister, has refused any UN role because Israel regards the organisation as biased against it.

The official said "an evolution in Israel's position" on this might be forthcoming when Mr James Baker, the US secretary of state, visits Israel early next week at the end of a regional shuttle hastily arranged to follow up the Syrian announcement, which President Bush described yesterday as a breakthrough in the peace effort.

However, there has been no sign yet from Mr Shamir's office that he is prepared to shift his position. Several times in the past few months, flexible signals from the Foreign Ministry have been overruled by the Prime Ministry.

The general welcome for Syria's move by the G7 leaders meeting in London yesterday, and their call for Israel to halt Jewish settlements in the occupied territories, increased the pressure on Mr Shamir to join the peace initiative.

Soviet immigration tests Israeli economy

Hugh Carnegy in Jerusalem weighs up the propects for growth and reform

After 18 months in which some 300,000 Soviet Jewish immigrants have arrived in Israel, there is great debate over whether the economy is rising to meet the challenge, or remains structurally ill-equipped to cope.

The debate centres on whether the country can achieve the projection of 1m newcomers by mid-decade, using them to restore long-term growth; or whether many will be deterred from coming by a depressed economic outlook, as some believe is already happening.

Several indicators back up the former, optimistic, scenario. Economic growth has resumed at a clip after the Gulf war which interrupted a long-awaited upturn stemming from the second half of 1990. Bank Leumi predicts 8 per cent growth for the year as a whole.

A surge in housing construction for the Soviet newcomers is providing much of the impetus, but optimists point to a big increase in imports of investment goods as evidence that a period of strong commercial growth is underway of the sort required to absorb 1m newcomers.

The gloomy camp takes a different view. Given the population growth fuelled by immigration, the growth figures are not so impressive. In any case, they argue, stronger growth is more the result of rising government spending than sound investment. Unemployment is rising, likely to be about 12 per cent by the year-end, and inflation is close to 20 per cent.

Most worrying is the performance of exports, by common consent the key to long-term growth. Merchandise, industrial, diamond and agricultural exports are all down on last year. The trade deficit grew in the first half by more than 60 per cent.

The optimists say Israel is bound to run a big deficit in the short term faced with such a rapid inflow of people. With currency reserves of more than $6bn and a good credit record, the country can afford both balance of payments and budget deficits so long as higher output fills the gap in the longer term.

"I don't believe the free market can do it," says Mr Uri Gordon, head of absorption at the Jewish Agency, responsible for immigration. "When 10,000 people arrive in Israel then the market can [accommodate them]. But when it is a flood, it's not a question for market forces. It is for the government to act."

Mr Yitzhak Shamir's government has adopted policies to subsidise construction and job creation and to inject funds into the infrastructure. It hopes the measures will soak up the extra people in the short term without upsetting private sector growth in the long term. But there is a significant lobby - including the US embassy in Tel Aviv - which believes this approach is misguided.

Mr Daniel Doron, director of the Israel Centre for Social and Economic Progress, wrote: "Instead of liberating our economy from its shackles and opening it up to initiative and enterprise, we keep expanding our failed centralised system."

Optimism's fodder: Soviet Jews arrive in Israel

Mr Yitzhak Moda'i, finance minister, argues he has instituted market reforms: A deal has been struck limiting wage agreements; a more liberal trade regime is due to be in place in the autumn; plans are afoot to regenerate the privatisation programme.

But Mr Moda'i's critics say none of this goes far enough. While praising the government's commitment to market reforms, an IMF mission which visited this month wrote: "The economy remains subject to many controls and other government interventions that are not present in Europe and progress towards removing them has been slower than in many countries. More worryingly, there remains a readiness to introduce ad hoc measures to attempt to correct perceived problems."

A withering report on the 1991 budget by the Institute for Advanced Strategic and Political Studies, a Jerusalem think-tank, went further. Its author, Mr Alvin Rabushka, a Stanford University economist, said government policies would ensure this year "slow growth, high unemployment, oppressive taxation, massive government spending . . . huge deficits, increasing public debt and a general increase in government intervention in the economy."

Israel's already heavy reliance on foreign aid - principally in the form of more than $3bn annually from the US - makes this debate more than an internal matter. The request for US state guarantees to cover a further $10bn in borrowing in the next few years has deepened US interest in economic policy.

US officials are unequivocally on the side of the market reformers. They fear that more aid will simply be used, as in the past, to bolster current spending rather than on reform.

The issue of more aid has already become a political issue, with talk of the Bush administration linking it to concessions by Israel on the occupied territories. But if critics of Israel's economic policies get their way, just as important an issue will be to tie additional aid to structural reforms in the economy.

THE BCCI SHUTDOWN

WESTERN ISLES

Council asks for £23m loan to cover losses

By James Buxton in Stornoway

WESTERN ISLES COUNCIL yesterday voted to defer decisions on cutting its spending, and is instead to appeal to the government to make good the £23m the council lost through investing in BCCI.

It is to commission an independent inquiry into how it came to invest almost all its surplus balances in BCCI. This will be conducted by Prof Alan Alexander, professor of local government at Strathclyde University.

In a packed council chamber in Stornoway councillors heard the financial options for the future. No information was given on the circumstances of the loss.

Later they went into private session to discuss the future of Mr George Macleod, the council's chief executive, who has come under severe criticism in recent days both for his past administration of the council and for his handling of the crisis. Last week Mr Donald Macleod, the finance director, was suspended on full pay.

Councillor Angus Graham said that it might be "impossible for the council to claw back its credibility". Referring to events on Monday when the chief executive said he was going on holiday, only to return to his desk a few hours later, he said: "The council degenerated into a Hebridean farce. The only person missing was Sir Compton Mackenzie to write about it."

Sir Compton Mackenzie wrote "Whisky Galore" which is set in the Outer Hebrides.

Mr Brian Lawrie, deputy finance director, explained that the poll tax for next year would have to rise from this year's £26 (excluding a £51 water charge) to £86 to cover the cost of borrowing £20m in the second half of this year. This was assuming the council did not make a three per cent cut in spending this year.

He recommended that the council ask the Scottish Office for consent to borrow £23m over a period of up to 30 years from 1992. If the government agreed it would fund the £3.6m interest through the revenue support grant.

However, if the borrowing consent was not given the council would have to borrow without consent and find the interest. This, with limited reductions in services, would push the poll tax up to £157.

Several councillors said that the 22,000 poll tax payers in the islands would refuse to pay an increased poll tax. "The buck stops here with the council," one councillor said.

The council agreed not ask officials to draw up plans for delaying £4m of capital spending, saving £1.2m from this year's budget and for leasing-back council property and cars. Councillors argued that to do so would weaken its bargaining position in negotiations with the government.

FORMER MINISTER'S CRITICISM

Lib Dem peer accuses Bank of 'lethargy'

By Jimmy Burns

LORD HARRIS of Greenwich, a former Labour Home Office minister and now the Liberal Democrat spokesman on home affairs, yesterday accused the Bank of England of "not having taken their responsibilities seriously enough".

"Despite the accumulated evidence ... I don't think they (the Bank of England) stirred themselves adequately to find out what was going on," he said.

"In my view there was a degree of lethargy. They have to answer the question as to why one of the most highly respected prosecutors in the US, who is regularly in contact with British regulatory authorities over this, had to complain about their lack of co-operation."

In April last year Lord Harris initiated a debate in the House of Lords in which he publicly criticised both the government and the Bank of England's alleged complacency over BCCI.

The criticism was launched after BCCI had admitted in the Federal Court in Tampa, Florida, that two of its wholly-owned subsidiaries had been involved in money laundering.

Both before and after the debate Lord Harris has travelled to the US, were he has been in close touch with government officials, law enforcement agencies and other investigators looking into BCCI.

In the US he is regarded as one of the best informed British politicians on the bank's activities.

Yesterday Lord Harris stressed that the information made available to him was the kind of information that would have been made available to the Bank of England if it had been asked for.

"I didn't get my information from secret sources. I simply asked the US authorities and US law enforcement agencies for information that could have been made available to the Bank of England," he said.

Lord Harris said that his feeling since 1990 was that "at every stage", the Bank of England "just hoped the (BCCI) problem would just go away in some way."

EMPLOYEES of BCCI's London head office received relief payment equivalent to a week's wages for the first time since the bank's closure on July 5. They attended a meeting at Skinner's Hall in the City before queueing at the Cannon Street branch for the money.

There is an upper limit of £500 to the payments. Some employees had not received letters calling on them to make a claim.

One employee, whose wife also worked for BCCI, said that when the bank was closed he had only £4.50 in his wallet.

A large number of BCCI staff also have personal loans and mortgages with the bank. They have not been informed by Touche Ross, the liquidators, what is likely to happen to those borrowings.

BCCI employees cannot claim unemployment as they are still technically employed by the bank.

PAKISTAN

UAE unit in talks on buying branches

By Farhan Bokhari in Karachi

THE BCCI affiliate in the United Arab Emirates, known as BCC(E), yesterday formally informed Pakistan's central bank, the State Bank of Pakistan, that it wants to buy the three BCCI branches in Pakistan.

The move appears to signal the first phase of a possible rescue plan to keep the branches open.

The three Pakistani branches have been at the centre of controversy as they continued to trade even after receivers closed their Cayman Islands headquarters.

Earlier this week, BCCI's receiver in the Cayman Islands, Mr Ian Wight, said that if Pakistan's central bank allowed the branches to remain open "it will be responsible to me for any funds that have been dissipated".

The State Bank of Pakistan directed the BCCI branches on July 6 to continue their operations.

Pakistan's government argued that banks operating in Pakistan must conform to local law, and senior officials say the banks' closure would hurt depositors' interests.

Two senior BCC(E) executives – Mr Bashir Tahir, the managing director, and Mr Ahmed Mohammad al-Kamdah, a director – met the governor of the State Bank, Mr I.A. Hanafi, yesterday. The central bank said: "The BCC(E) representatives ... expressed their willingness to acquire BCCI's Pakistani operations."

Mr Tahir said yesterday that one of his most important concerns would be to examine the legal aspects of any decision that is made.

BCC(E) lawyers are examining the matter and would be available for consultation when the two BCC(E) directors hold further meetings with central bank officials today, a BCCI source said.

One foreign diplomat familiar with BCCI in Pakistan said yesterday that these legal concerns may include the question of a formula acceptable to the liquidators, shareholders and supervisory authorities.

Officials and bankers say BCCI has a 40 per cent holding in BCC(E), which has continued its operations in the United Arab Emirates. But, according to local businessmen, the winding up of BCCI globally may affect that stake.

Government and bank officials in Pakistan and Abu Dhabi have been in contact over the past week to consider BCCI's future in Pakistan.

The three branches last year earned profits of Rs500m (approximately £12.5m), according to BCCI managers, and profits for the first six months of this year were Rs300m. BCCI's investments in Pakistan include at least Rs3.6bn in government paper.

In spite of withdrawals last week of Rs900m rupees, BCCI still had deposits of Rs9.5bn when trading began this week, they said.

Asked whether BCCI's branches could continue to operate in Pakistan, the bank's local deputy general manager, Mr Badruddin Khan, said: "We are very hopeful about the future of the bank."

BANK OF ENGLAND

Governor in Abu Dhabi mission

By David Barchard

THE governor of the Bank of England, Mr Robin Leigh-Pemberton, spent yesterday in Abu Dhabi on what appeared to be a last-ditch mission to reach an understanding with the emirate's rulers over BCCI.

The Bank yesterday declined to give details of whom Mr Leigh-Pemberton – who flew to the Gulf on Monday with a party of four officials including Mr Brian Quinn, head of the banking supervision division – had seen in Abu Dhabi or what was being discussed. The Bank said he would return to London shortly.

In London it was thought that the governor would see Abu Dhabi's crown prince Sheikh Khalifa bin Zayed, who is the principal BCCI shareholder, and Mr Abdul-Malik al-Hamar, the governor of Abu Dhabi's central bank.

Abu Dhabi's ruling al-Nahyan family, the Abu Dhabi government and the Abu Dhabi Investment Authority together own 77 per cent of BCCI.

In a statement issued on Monday, the emirate strongly criticised the international swoop that closed down BCCI on July 5.

The governor is certain to have faced tough questioning on why the authorities in Abu Dhabi were not warned about the existence of fraud inside the bank, even though the emirate last year agreed to underwrite an operation to reform the bank by putting in fresh capital and management.

The Abu Dhabi stake was increased from 36 per cent and BCCI's head office, including its records and accounts, was transferred there.

As a result it was in Abu Dhabi that detailed evidence of widespread fraud inside BCCI was discovered by Price Waterhouse, the bank's auditors, earlier this year.

Abu Dhabi has already hinted that it is considering legal action against Price Waterhouse over the affair.

There has been no suggestion that the al-Nahyan family is in any way involved in the irregularities at BCCI.

KINNOCK RENEWS ATTACK

MacGregor rejects Labour criticism of action

RENEWED Labour complaints that the Bank of England could have acted earlier to end fraudulent trading by BCCI were rejected by Mr John MacGregor, leader of the Commons, yesterday, Ivor Owen and Ralph Atkins write.

Refuelling the political row over the affair, Labour leader Mr Neil Kinnock argued that a report by Price Waterhouse showing there were irregularities in the operations of BCCI was available to the Bank and the Treasury in March 1990.

The controversy over BCCI at Westminster is likely to enter a new phase today when the Commons Treasury select committee is expected to start a detailed inquiry.

If it does, Mr Robin Leigh-Pemberton, governor of the Bank, is likely to be called to give evidence before the summer recess starts next week.

In spite of Labour demands for a full inquiry, Tory MPs appear anxious not to upset party unity on this issue in the run-up to the general election. "We don't want to undermine confidence in the banking system," said one.

There is, however, concern about how the deposit protection scheme will work in practice and this is likely to be reflected in any inquiry by the Treasury committee. Some Conservative MPs are also concerned about the impact of the controversy on the image of the City and the wider issue of bank supervision.

Standing in for the prime minister, who was at the G7 economic summit, Mr MacGregor stressed that the Bank could act only on evidence and not rumours.

He assured the House that the Bank of England had acted "as soon as it had that evidence".

Mr Kinnock claimed the Price Waterhouse report had shown that BCCI was "virtually bankrupt" and that hundreds of millions of dollars were being given in unsecured loans.

The Treasury select committee, which is already working on a number of other investigations, could choose to limit its investigations to BCCI or could embark on a wider inquiry into banking supervision.

WORLD TRADE NEWS

Rolls-Royce, GE to share Japanese engine contract

By Robert Thomson in Tokyo

JAPAN's Defence Agency has decided that Rolls-Royce of the UK and General Electric (GE) of the US will split evenly the supply of gas turbine engines for eight destroyers in a contract that had become a sensitive political issue between London and Washington.

Each of the eight vessels will have two engines from each company, although Defence Agency officials insisted yesterday that the contract, worth about $160m (£97m) in total to the two companies, was decided on purely technical grounds.

Rolls-Royce has supplied engines for about 30 vessels for the Japanese navy, but the last two engine contracts were awarded to GE. For this contract, Rolls-Royce will supply components for engines to be built by Kawasaki Heavy Industries of Japan, while GE is in partnership with Ishikawajima-Harima Heavy Industries (IHI).

The contest for the contract became an issue between Washington and London after the UK government was aware of US political pressure on Tokyo to choose US companies for the engine contract and another military contract for 27 search-and-rescue aircraft worth £240m.

Mr Tom King, UK defence secretary, wrote several weeks ago to the Defence Agency to request that US political influence be ignored and contracts be awarded on technical merit and commercial grounds.

Japan has bought most of its imported military equipment from the US, and Japanese officials admit some contracts are awarded to ease tension with Washington. There has been noticeable increase in pressure from the US on the defence equipment issue since the Gulf crisis.

But a Defence Agency official said yesterday that political pressure did not influence the decision to divide the contract evenly between the UK and US contenders.

The vessels are due to be constructed by 1995.

● Japan Airlines (JAL) will buy engines made by United Technologies' Pratt & Whitney division for 20 McDonnell Douglas MD-11 airliners ordered in March 1990, a JAL spokesman said, Reuter reports from Tokyo.

JAL decided at the directors' meeting yesterday to order 60 Pratt & Whitney PW4460 engines, three per aircraft, at a cost of at least Y60bn (£265m).

Europe on attack over textile trade practices

By William Dullforce in Geneva

THE EUROPEAN textile and clothing industries yesterday listed the "unacceptable trading practices" they want abolished or mitigated before the $180bn annual world trade is liberalised.

Their demand came as diplomats here were seeking a compromise between exporting and importing countries to the extension of the Multi-Fibre Arrangement (MFA), which currently governs trade in textile products, beyond its July 31 expiry date.

Mr Jean-Francois Limantour, president of the European Clothing Industries Association, warned that failure to extend the MFA would create a legal void damaging both exporters and importers. But he made a distinction between the extension and the negotiations in the Uruguay Round trade talks which aim at phasing out the MFA and bringing trade in textiles and clothing under Gatt rules.

The EC industry wants all national markets opened to exports by the end of a 15-year transition period through a harmonisation of customs duties at the EC level.

But effective means had to be put in place to combat imports of counterfeit and pirated goods and of dumped and subsidised products. EC legislation should cover trademark piracy, counterfeiting of designs and models and provide for seizure and destruction of the products involved.

Current anti-dumping procedures should be speeded up and provision made for dealing with "secondary dumping," products made up from semi-finished goods which have been exported at prices lower than those at which they are offered on their home markets.

Gatt's textiles committee will try again today to resolve differences between exporting and importing countries over extension of the MFA. Mr Arthur Dunkel, Gatt director-general, has proposed a 17-month extension, pending the conclusion of the Uruguay Round, during which governments would accept a general standstill commitment.

EC, US anti-dumping laws attacked

By William Dullforce in Geneva

A JAPANESE report on unfair trading practices has highlighted European and US anti-dumping measures, with the US, in particular, singled out as moving increasingly towards an "illegitimate mechanism" operating outside international rules.

The report, published by the Japanese fair trade centre, an independent research institution, is a riposte to US and EC assaults on Japan's barriers to imports. It follows the same track as the national trade estimate report prepared by the US Trade Representative's office and the EC Commission's report on US trade barriers.

The Japanese report set out to identify US and EC practices that were "questionable under the General Agreement on Tariffs and Trade" and which undermined efforts to promote free trade.

US trade policies were laudable in many respects but had departed from Gatt rules with increasing frequency in recent years, the report stated. Washington had been using the threat of unilateral sanctions to coerce others into changing practices without recourse to international dispute settlement.

The operation of US anti-dumping law was characterised as unfair and biased, with rules used to calculate dumping margins on imports significantly slanted.

Margins were found even when prices were the same in both an exporter's home market and the US, because of the practice of comparing an average home market price with individual US sales prices, making asymmetrical adjustment for selling expenses, and not fully taking exchange rate fluctuations into account.

The EC had imposed substantial burdens on exporters by starting anti-dumping investigations when petitioners had not established *prima facie* cases of dumping or injury to domestic producers.

A long list of unfair EC anti-dumping practices given in the report included the use of an unreasonably high profit when calculating the target price used to estimate margins and the use of anti-circumvention rules, which Gatt had declared illegal.

EC and US to meet on farm reform

By Andrew Hill in Brussels

EUROPEAN Community commissioners are to meet US trade and agriculture representatives at the end of the month to discuss progress on the Uruguay Round of trade liberalisation talks and prospects for EC agriculture policy reform.

Mr Ray MacSharry, EC farm commissioner, and Mr Frans Andriessen, responsible for external relations and trade policy, will meet Mr Ed Madigan, US agriculture secretary, and Mrs Carla Hills, US trade representative, in Brussels on July 30. The Commission's farm reform plans are central to attempts to kick-start the stalled negotiations under the Gatt.

Mr MacSharry's proposals were attacked by many EC states at a two-day meeting which finished yesterday.

Howver, Mr Piet Bukman, agriculture minister of the Netherlands, which holds the EC presidency, said ministers had laid the groundwork for the next EC agriculture council in September.

S Korean liquor tax issue goes to Gatt

By John Ridding in Seoul

THE EC is preparing to take its long-standing complaint about South Korea's system of alcohol taxation to the General Agreement on Tariffs and Trade (Gatt), Mr David Wright, the UK ambassador to Seoul said yesterday.

Mr Wright, who called for "fundamental changes to the discriminatory taxes and duty on imported alcohol products" said that "we are now putting a case together."

He said the complaint would be presented to Gatt unless changes sought by the UK and other EC governments are implemented.

The principal issue in the trade dispute concerns the taxation of Scotch whisky which is taxed at higher rates than comparable Korean and foreign alcoholic drinks. A bottle of Scotch in Korea costs about won 33,000 (£27.40), more than twice the price in Japan.

Mr Wright demanded a reduction in liquor tax from 150 per cent to at least 80 per cent - the current tax rate for locally produced whisky - the reduction and eventual elimination of education taxes on foreign alcoholic drinks, alignment of import duties on whisky and brandy, and an end to the ad valorem system of duty and tax assessment on alcohol.

The South Korean government has taken a number of steps in response to criticism of its system of alcohol taxation. At the beginning of this year, import duties on Scotch whisky were reduced from 50 per cent to 40 per cent, with a further 10 per cent reduction due in 1993. The liquor tax has been reduced from 200 per cent to 150 per cent, effective this month, and defence taxes on imported alcoholic drinks have been eliminated.

But the EC, the UK government and the Scotch Whisky Association, an industry group, have rejected these measures as indadequate. They claim that the retail price of an imported bottle of Scotch is still about three times its landed cost and much higher than comparable local products such as *sofu*, which holds 97 per cent of the spirits market.

Japan's record sellers miss a beat

End to price-fixing would threaten retailers, writes Emiko Terazono

WITH their faded teen-idol pin-ups on the walls, Japan's mom-and-pop record stores have become symbols of a rigid and closed retail system.

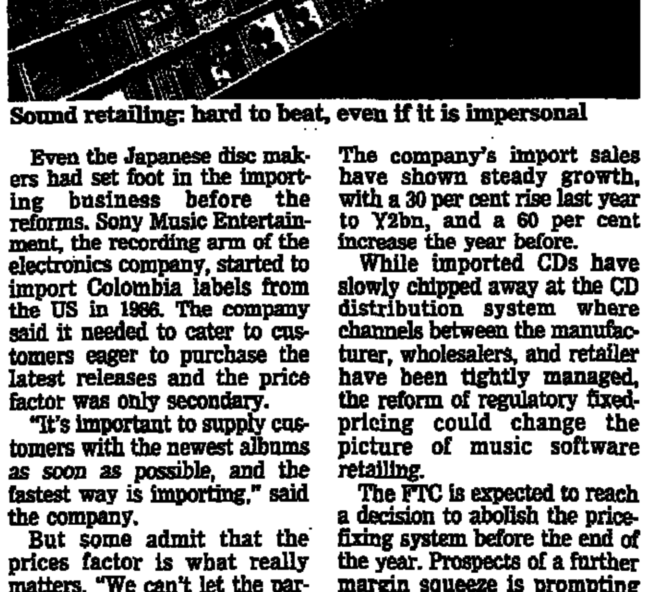
Price-fixing is what has helped keep it that way. Now an advisory council for Japan's Fair Trade Commission has made public a report urging that the system be abolished.

The small retailers could disappear, so there is little wonder they are fighting back. The "neighbourhood feeling", say the corner record stores, "is being threatened and replaced by the impersonal consumer electronic supermarkets".

Record makers have been beneficiaries of legal fixed pricing and have been strongly opposed to reforms of fixed-pricing as this would mean lower margins, especially when they are seeing profits eroded by imported music software.

But while records have been subject to the fixed-price system, no clear-cut rules have been laid for CDs. Bitter debates over fixed-pricing of recorded music, and the status of CDs themselves, are expected to continue between the record companies and the FTC, but companies claim the FTC has allowed price "distortion" by ignoring CD discounts.

The imported CD market is estimated to have grown to Y25bn (£110m), or about 6 per cent of the Japanese CD and record market, and 19 per cent of the foreign label market, which was virtually zero in the 1970s.



Sound retailing: hard to beat, even if it is impersonal

Even the Japanese disc makers had set foot in the importing business before the reforms. Sony Music Entertainment, the recording arm of the electronics company, started to import Colombia labels from the US in 1986. The company said it needed to cater to customers eager to purchase the latest releases and the price factor was only secondary.

"It's important to supply customers with the newest albums as soon as possible, and the fastest way is importing," said the company.

But some admit that the prices factor is what really matters. "We can't let the parallel importers have all the tasty parts," said Warner Pioneer, which imports WEA labels including pop artists such as Madonna and Prince.

The company's import sales have shown steady growth, with a 30 per cent rise last year to Y2bn, and a 60 per cent increase the year before.

While imported CDs have slowly chipped away at the CD distribution system where channels between the manufacturer, wholesalers, and retailer have been tightly managed, the reform of regulatory fixed-pricing could change the picture of music software retailing.

The FTC is expected to reach a decision to abolish the price-fixing system before the end of the year. Prospects of a further margin squeeze is prompting record makers to look for cheaper alternatives.

For the recording companies, reprinting foreign labels can be costly as it requires remaking the packaging, including new covers and translations of the lyrics. effective.

Added to this, the large retailers which buy discs by the bulk are more attractive than the corner-store record outlets with complicated wholesale routes. Domestically, manufactured CDs first go through big wholesalers and, from there, are redistributed to retailers.

But Japanese recording companies which import foreign labels are sensitive to the relationship with the small retailer. Traditionally, they have relied heavily on the small retailers for promotion and sales of the domestically-made discs.

Even if a small retailer desired to sell imported discs, this would require a different contract with the distributor or wholesaler. Some record stores with limited clientele would rather sell domestic discs with the secured margins, usually about 30 per cent.

It is uncertain whether the reforms in price-fixing would change the rigid system drastically. Arguments that imported CDs can still be priced more cheaply suggest that the leading bulk retailers handling imported CDs are actually monopolising the market thus preventing flexible pricing.

Considering 75 per cent of the Y500bn music software market is Japanese pop music, the bulk retailers may not want to jeopardise relations with record suppliers.

DEFENCE CUTS

UK to restructure naval support

By Paul Abrahams and Ralph Atkins

MR TOM KING, the UK defence secretary, yesterday ended speculation about the Rosyth naval base when he announced a rationalisation of the Royal Navy's support infrastructure.

The rationalisation includes the loss of 2,800 civilian jobs across the country, including 900 at Rosyth in Scotland. Mr King said he had considered closing Rosyth but had decided against the measure.

The announcement was given a heavily-qualified welcome by opposition MPs but provoked a fierce row in the House of Commons where the Speaker [chairman] rebuked the government for briefing journalists instead of giving a statement to MPs.

"This chamber is the forum of the nation. This is where statements should be made, not to those outside," the Speaker said.

Under Mr King's reorganisation, the Rosyth-based squadron of four Type 42 destroyers will be redeployed to Portsmouth in southern England by the end of 1994.

The local economy will lose 1,100 service personnel who will move south. The number of civilian staff there will be cut from 2,300 to about 1,400. Rosyth will continue to operate as the base for 23 mine-countermeasure and fishery protection vessels.

The decision to move the Type 42s will save about £70m over five years, said Mr King. He said this would save more money in the short-term than closing the base altogether.

Tom King: measures will ensure best use of resources

Mr King said the four naval bases at Portsmouth, Plymouth, Devonport and Rosyth would provide the bases for the Royal Navy in its reduced state.

Further rationalisation at naval bases would also take place, said Mr King. He warned there was no guarantee for any facility anywhere in the country for any length of time.

Mr King also announced a series of base closures over the next five years. They include, the RN Air station HMS Daedalus at Lee-on Solent; the RN stores depots at Lathalmond in Scotland and Copenacre in Wiltshire; the RN armaments depot at Trecwn in Wales; and the oil fuel depot at Invergordon.

The armaments depot at Plymouth, will also be partially closed and the Gunwharf site at HMS Nelson, Portsmouth, is to be sold.

Mr King said: "These measures carry forward the policy already announced of making reductions in the support area proportional to those in the front line," he said.

"They are an essential part of ensuring the best use of defence resources and providing a structure appropriate to the needs of our Navy in the '90s and beyond."

The opposition Labour party pressed for a government statement today, saying it wanted a guarantee of Rosyth's future beyond the general election.

Mr Martin O'Neill, defence spokesman, said the decision was, "a postponment of sentence, rather than a reprieve."

Mr Donald Dewar, Labour's Scottish spokesman, said: "There must be no question of the base being left in limbo, constantly in fear of a postponned execution."

Mr Gordon Brown, Labour's trade and industry spokesman whose Dunfermline East constituency includes the Rosyth Base, spearheaded the local campaign to prevent closure. He has published series of leaked documents which he claimed showed there was a faction within the Ministry of Defence wanting to shut the naval base.

He said Labour accepted the need for change but accused the government of "discrimination" against the Rosyth base, saying the loss of 900 jobs and the removal of more than 1,000 naval personnel was "unnecessary and unwanted".

Labour would use the consultation period to change the government's mind, he said.

Mr Jack Dromey, national secretary of the Transport and General Workers Union, said: "We will now step up our campaign because what we do not want is a tactical retreat under fire until the other side of a general election."

Central gambles correctly with TV bid

By Raymond Snoddy

CENTRAL Independent Television, the second largest company in Britain's independent television (ITV) network, has pulled off a financial coup in the battle for new television licences by winning back its broadcasting franchise with a bid of less than £1m a year.

Central, the ITV company which holds the franchise for central England, gambled correctly that when the secret bids went in on May 15 it would be unopposed.

The company is one of the "Big Five" national network production companies which operate against the state-funded BBC.

Bidding for the Britain's 16 commercial franchises - broadcasting licences – closed earlier this year when 40 applicants had to commit an undisclosed sum of money.

The franchises are awarded by the new Independent Television Commission which is expected to give the licenses to the highest bidder, except in special circumstances where it *judges that programme quality* would decline seriously.

The winning bidders also have to pay a slice of their advertising revenue to the government. In Central's case this is 11 per cent.

There are growing fears that, overall, too much money will go out of the ITV system to the government and too little will *be left to make quality programmes*.

Under the system Granada Television, one of the most famous ITV companies, has been outbid by North West Television by more than £15m while TV-am, the breakfast television station, seems set to lose to Sunrise a consortium including London Weekend Television and The Guardian *and Manchester Evening News*.

Central was one of three ITV companies which had no opposition. The others were Border one of the smallest and Scottish Television which also guessed right and bid less than £1m for the franchise.

Central believes it was unchallenged because of the complexity of its triple region *with separate news operations* in Birtmingham, Nottingham and Abingdon.

With ITV companies such as TVS Entertainment bidding £55m a year and Yorkshire around £34m Central could become the most powerful commercial television company in the UK.

The Central bid is a boost for the company's two main share*holders Carlton Communica*tions which holds 20 per cent, and has bid for both the Thames and TVS franchise areas, and D.C.Thomson, the Scottish publishers with 19.5 per cent.

The enormous range of bids emerging will raise increasing questions about the wisdom of the system of blind competitive *tenders insisted upon by the* Government in its 1990 Broadcasting Act.

Brussels 'to be denied scrutiny of UK budget'

By Ivor Owen

THE GOVERNMENT would never agree to the annual budget being submitted to the European Commission for scrutiny before it was presented to the House of Commons, Mr Francis Maude, financial secretary to the Treasury, said last night.

He also reaffirmed the government's opposition to rigid centralist rules limiting the right of the individual member states of the European Community to operate budget deficits.

Mr Maude was questioned about the implications of a draft treaty drawn up during Luxembourg's presidency of the EC when he urged the House of Commons to approve the third reading of the Finance Bill, the draft legislation embodying the national budget first outlined in March.

He said: "I can unequivocally reassure the House that there is no intention whatsoever of submitting the budget, with all its detailed fiscal measures, to anyone's scrutiny *other than the scrutiny of the* House of Commons".

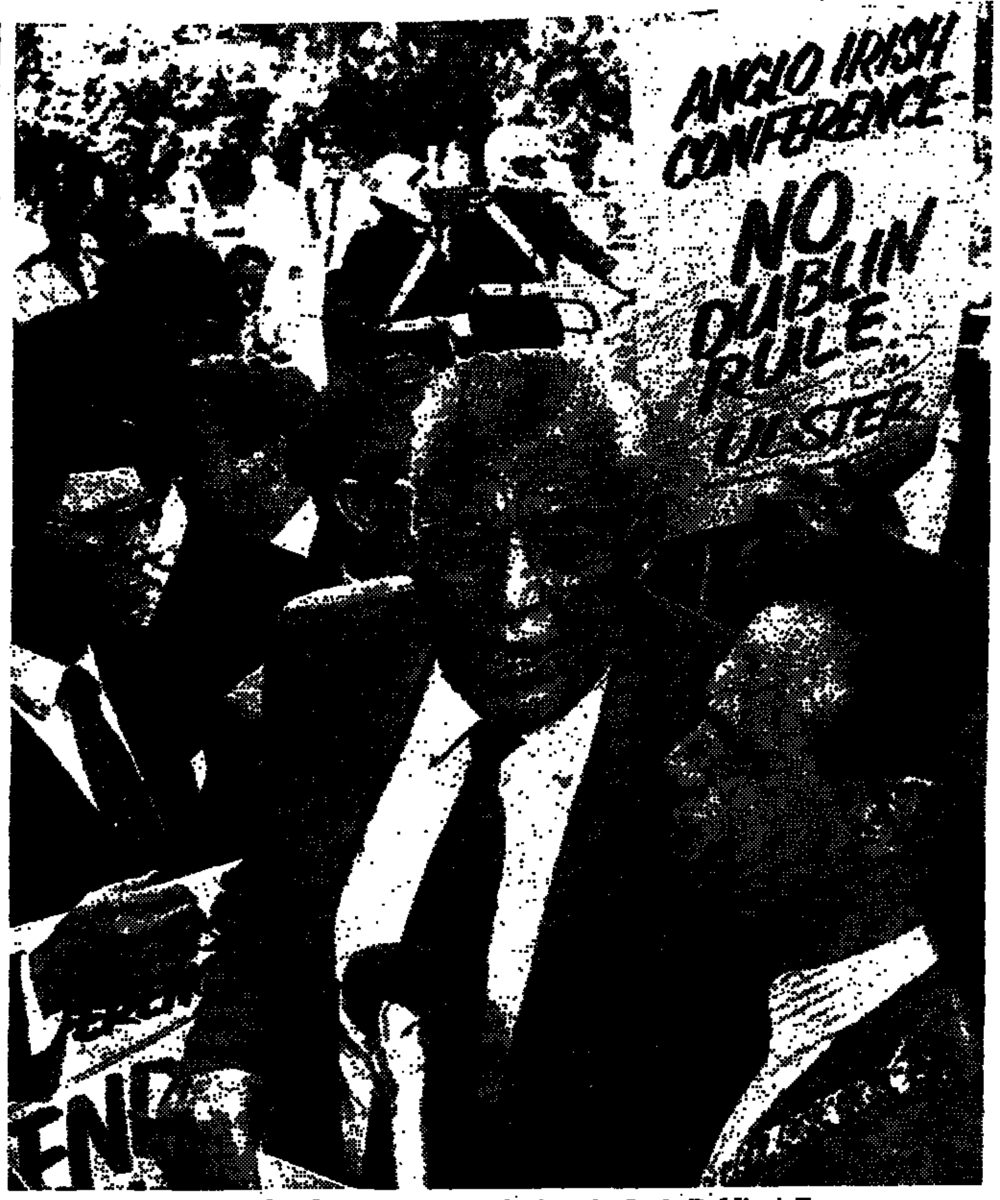
Mr Maude described the draft treaty as a "working document", and stressed that at the present stage not a single word of it had been agreed.

He said it would be "a different proposition" if arrangements were made for European Commission institutions *to examine the overall budget* plans of the member states after they had been submitted *to national parliaments*.

Mr Maude also acknowledged that convergence of budget deficits would be an important issue if agreement was reached in the European Community on economic and monetary union. Britain remains *sceptical over the benefits of* total union.

He said if some member states had excessive budget deficits the solution would not be rigid prescriptive centralist rules but the operation of market forces.

Mr Maude said the bill's provisions reflected the "budget for business" and eased the burden of taxation right across the whole spectrum of industry.



Show-stopper: Ian Paisley demonstrates against yesterday's Dublin talks

Paisley steals limelight at talks

By Kieran Cooke in Dublin

MR IAN PAISLEY, leader of Northern Ireland's Democratic Unionist Party, stole the limelight in Dublin yesterday as Irish and British officials held a meeting of the Anglo-Irish conference.

Mr Paisley and a group of other Unionists had travelled from Northern Ireland to protest about the conference meeting which they said had sabotaged recent inter-party talks on the future of Northern Ireland. "This meeting is anathema to all Unionists," said Mr Paisley.

The break-up of the talks between Northern Ireland's constitutional parties was top of the agenda in discussions led by Mr Gerry Collins, the Irish minister for Foreign Affairs and Mr Peter Brooke, the Northern Ireland secretary.

Mr Brooke said before the meeting he was glad the Ulster discussions broke up without recriminations.

Both London and Dublin are keen to have the talks resumed sometime in the autumn but Unionists – who favour strengthened links between Ulster and mainland Britain – are likely to insist that all meetings of the conference, held under the auspices of the 1985 Anglo-Irish agreement be cancelled before they participate.

Mr Collins and Mr Brooke also discussed various security measures: Dublin has expressed its concern about the decision last week by the Royal Ulster Constabulary, the Northern Ireland police, to allow the Loyalists parade through Pomeroy, a predominantly Roman Catholic town in County Tyrone.

Dublin is also believed to have questioned the advisability of what it sees as the increased use of the Protestant dominated Ulster Defence Regiment in many nationalist areas of Northern Ireland.

CBI seeks creation of new voice for industry

By Paul Cheeseright, Midlands Correspondent

THE Confederation of British Industry, the UK employers' organisation, has proposed the creation of a single body to speak on behalf of UK manufacturers.

Mr John Banham, director-general, told business executives in Birmingham yesterday that the CBI wanted to set up the National Manufacturing Roundtable, consisting of 100 top manufacturers and representatives of trade associations.

"There is at present no single clear and authoritative voice for manufacturing in the UK, and the CBI is moving to fill this vacuum," he said.

Among manufacturers there has been concern that their views have been ignored by the government.

The voice of manufacturing, Mr Banham maintained, had come across as "divided, inconsistent and muffled."

Over the last decade, the influence of the CBI has diminished. Although the largest of the employers' organisations, its membership has been too diverse and its interests too varied for a distinct industrial view to be heard.

The proposal for the Roundtable was presented as the result of a joint initiative with the Engineering Employers' Federation, but the announcement surprised regional engineering associations which make up the EEF.

The EEF and the CBI have been holding talks about pooling their resources. Sir David Lees, president of the EEF, is planning to meet senior union officials in London this evening to discuss the options that these talks have presented. But it is believed the Rountable was not one of them. The regional associations are waiting for a report, planned for September, on the results of the CBI-EEF talks.

The organisation would have a permanent staff led by a director who, said Mr Banham, "would also be a deputy director general of the CBI."

It would produce an annual report identifying the problems and opportunities of manufacturing.

British Airways to drop donations to Tory party

By Paul Abrahams and Ralph Atkins

LORD KING, chairman of British Airways and a firm supporter of Mrs Margaret Thatcher, the former prime minister, yesterday said his company was stopping donations to the Conservative party.

He used BA's annual general meeting to attack a series of government rulings, which, he claimed, had hit the group's future profitability.

The decision comes as a double blow to the Conservatives - undermining its transport policy and suggesting the party's financial problems could intensify in the run up to the general election.

BA's is the first previously-large donor to say how much it will give in the 1991-92 financial year – when Tory party finances should be rising. The 1987 election is widely estimated to have cost the Tories about £15m.

The Conservatives reveal few details about finances, but surveys of annual company reports suggest corporate donations fell both last financial year and the year before.

In 1990-91 the party reported a deficit of more than £5m.

While Lord King was a close friend of Mrs Thatcher he is no more than an acquaintance of Mr John Major, the present prime minister.

Lord King: shifting support

Recent falls in corporate donations almost certainly reflect the recession and disenchantment with government economic policies.

Addressing BA's annual general meeting, Lord King refered to government decision, "to confiscate four of our slots each week at Tokyo's Narita airport and open up our Heathrow base to all comers."

"We welcome the liberalisation of the airline industry – provided we are allowed to compete on a fair and equal basis. If not, I fear the UK will become an insignificant bit player on the aviation scene," he said.

A Conservative party official said: "This is entirely a matter for BA. . . The government has supported competition in air transport in the UK, Europe and beyond. We will continue to do so."

In an interview with the Financial Times last month, Sir John Cope, deputy chairman of the Conservative party, said the Tories' debt was "perfectly manageable". BA donated £40,000 to the Tories in both 1989-90 and 1990-91.

For the opposition Labour party, Mr John Prescott, transport spokesman, described the announcement as "sensible". He said the Conservative party, "has been so hostile to British aviation and British industry".

Responding to a shareholder question about political donations, Lord King said: "In view of the decisions by the government and their adverse effect on our business and in line with our overall cost reduction programme, no further political contributions will be make in the current financial year."

The announcement was greeted with applause from the shareholder audience.

PSBR hits £9.2bn in quarter

By Peter Marsh, Economics Staff

BRITAIN'S underlying public-sector borrowing requirement in the first three months of the financial year reached a record £9.2bn, reflecting fiscal changes introduced in the budget and strains caused by the recession.

The underlying figure announced yesterday refers to the total debt taken on by the government but excludes privatisation receipts of £2.2bn over the quarter.

The headline number for the borrowing requirement for the period is £6.9bn, the highest quarterly figure since 1981.

The recession is contributing to the high figure by reducing tax revenues and pushing up public spending in areas such as unemployment benefits.

Another factor is delays in poll tax payments, and in collection of income arising from the 2½ per cent increase in VAT announced in the March budget. There was good news for the government in the borrowing requirement for June, which was lower than expected at £1.4bn.

Excluding privatisation proceeds of £1.1bn from the first instalment of the sale of two Scottish electricity companies, the figure was £2.5bn.

The relatively low borrowing requirement for last month was due partly to net spending by central government departments being restricted to £15.3bn, compared with £18bn in both April and May of this year. The figure was £14.5bn in June 1990.

However, central government income last month was also low, at £13.3bn – as against £17.2bn and £15.6bn in April and May, and £13.2bn in June last year.

The headline figure for the borrowing requirement for the first quarter is not far short of the £8bn forecast by the Treasury for the whole of the financial year. Treasury officials see no reason to alter their prediction, made at the time of the budget because they believe the government's finances will recover lost ground later in the year. Some analysts, however, are projecting much higher figures of up to £12bn.

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BRITAIN IN BRIEF

Government softens line on ISG

The government has softened its line on providing "top up" reinsurance once the Insurance Services Group of the Export Credit Guarantee Department (ECGD) has been privatised.

The government said last week that the bill to privatise the Insurance Services Group (ISG), part of the ECGD, would contain the commitment that the government would continue to provide reinsurance where this was in "the national interest".

The House of Lords – Britain's upper chamber – was told Mr Peter Lilley, trade secretary, would be obliged to consider extending beyond the three years already planned the "top up" facility which it had agreed to provide as a transitional measure immediately after privatisation, in case of a shortfall in the insurance market's capacity.

Institutions urged to vote

Institutional investors are being urged to exercise voting rights of their shareholdings. The failure of many big funds to vote on routine, or even important, company resolutions has led to suggestions that fund managers do not take a proper interest in the affairs of companies.

The call comes from the executive committee of the Institutional Fund Managers' Association, the investment management trade body representing 73 portfolio managers.

A recent survey has shown that among the institutions only insurance companies are assiduous voters: 11 out of 13 said they voted at all times. But only one out of seven merchant banks and one out of 13 unit trusts consistently voted.

London Transport (LT), which operates the city's buses and underground network, reported pre-tax losses of £22.8m on the same day that it announced a £91m program to refurbish Underground trains. Mr Wilfrid Newton, LT chairman, (pictured above right with Mr Malcolm Rifkind, transport secretary, on one of the refurbished trains) says the decline in peak-hour passengers resulted in fares income falling £24.5m below expectations. There was a further shortfall of £33m on expected property receipts. Meanwhile costs had risen by nearly £48m because of inflation and safety spending.

Consultancy fees rise 20%

Management consultancy fees rose 20 per cent over the past two years: the average consultancy firm now charges £720 a day, compared with £600 in 1989, according to a sample studied by the Management Consultancy Information Service.

PR man leaves energy company

Mr Simon Moore, director of public relations for Nuclear Electric, the state-owned electricity generator, has left the company following the cancellation of a £7m television advertising campaign.

Record sales for Royal Mint

Britain's Royal Mint brushed aside the effects of the recession to record record sales and profits in the year to the end of March.

But Mr Anthony Garrett, the chief executive, warned that in 1991-92 "it is improbable that the Mint will be able to match the results of the past two years."

Plea for more judges rejected

Lord Mackay has rejected a plea from Lord Lane, the Lord Chief Justice, for more judges to tackle the growing workload of the courts.

The Lord Chancellor conceded that an extra division of the Court of Appeal should sit regularly to reduce the backlog of appeals. He said continuing re-organisation of the courts system would release staff and resources.

FT may offer RSI payments

The Financial Times may offer payments of up to £150,000 each to journalists who have been so badly affected by repetitive strain injury (RSI) that the company believes they will be unable to work for the newspaper again.

The FT has said it may offer payments of at least 17 months' salary to any journalist leaving the company because of upper limb pain which could have been caused by using a word processor keyboard.

For a senior journalist with long service, the payment could be between £140,000 and £150,000.

Protest called over offices

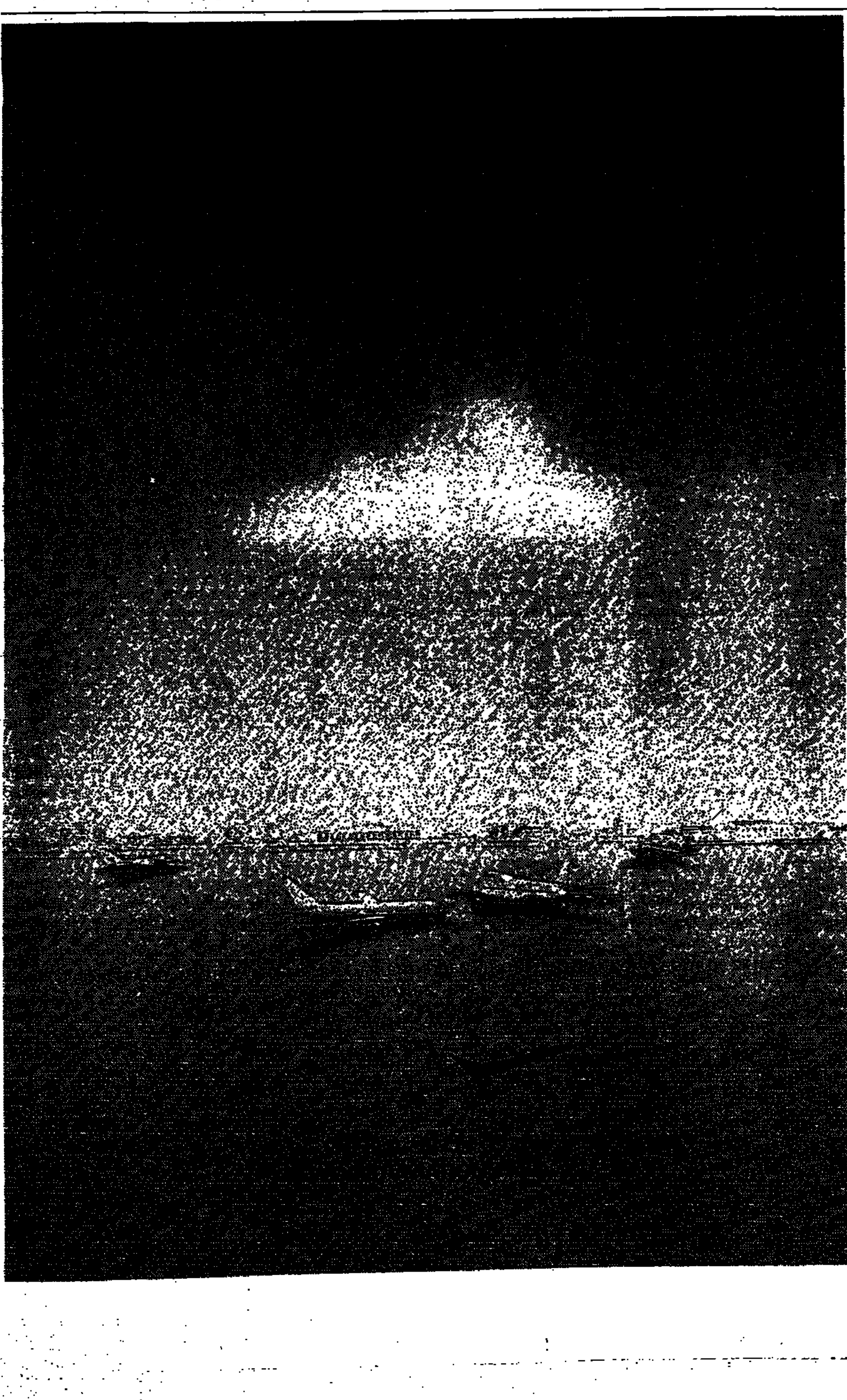
Staff in Jobcentres in London are being encouraged to strike tomorrow in protest at new open plan offices which they say exposes them to assaults by claimants. The strike is thought to be one of the first called over office design.

Strike for 35 hour week

Blue collar employees at the Portsmouth factory of De La Rue, the security printer and payment machine maker, have voted to strike in an attempt to join the small number of manual workers in the UK on 35-hour weeks.

Island dreams

A pair of Channel islands near the French coast are on sale. Jethou, with a circumference of one-and-a-quarter miles and covering about 50 acres, is described as "one of the smallest and most attractive" of the Channel Islands. Lihou Island is the smallest inhabited Channel Island and is linked to Guernsey, half a mile away, by a causeway at low tide. Each is on the market for about £1m.



MANAGEMENT

Seeking success in the face of disaster

Andrew Jack considers 'expeditionary marketing' as a sign of innovative corporate experimentation

Success, it used to be said, has many parents, while failure is an orphan. In the 1990s, paradoxically, corporate success may be largely dependent on the failure of some products or services.

The profitable company will have to shift away from competing in existing, well defined markets. It needs instead to create and dominate fundamentally new ones.

But establishing these markets means taking risks and launching new products, many of which will fail. The key is to learn from mistakes and readjust quickly.

Failure of a product may not be a disaster for the company but rather a sign of innovative corporate experimentation or "expeditionary marketing", according to an article by two business school academics* in the latest issue of Harvard Business Review. The challenge for executives is to expand their "corporate imagination".

News that NEC, the Japanese electronics group, is attempting to create a telephone system which acts as an interpreter between callers speaking different languages has probably raised many sceptical eyebrows.

However, NEC's approach is praised by C K Prahalad, professor of corporate strategy and international business at the University of Michigan, and Gary Hamel, associate professor of strategy and international management at the London Business School.

NEC, they argue, is trying to stay ahead by identifying the markets of the future, rather than relying on conventional, customer-led market research. So is Yamaha, which created a "listening post" workshop in London where it works with leading European musicians to understand the future of electronic music making.

The writers weave a lively theme around examples of imaginative – and largely Japanese – companies consistently out-classing their – mainly American – counterparts to create the markets of the future. "Without the capacity to stake out new competitive space, many will find themselves interned in traditional, shrinking product markets," they warn.

An imaginative company is one that can envisage "markets that do not yet exist and [has] the ability to stake them out ahead of the competition". It has an "opportunity horizon" which extends far beyond current operations and return-on-investment formulae to "an almost visceral sense of the benefit that customers will ultimately derive should pioneering efforts prove successful".

The authors suggest four elements which will help to stimulate this corporate imagination:

- escaping the tyranny of the served market;
- searching for innovative product concepts;
- overturning traditional price/performance assumptions;
- getting out in front of customers.

Hamel and Prahalad, building on a concept they first discussed in an HBR paper last year, say a company should escape the shackles of its existing markets by seeing itself as a portfolio of "core competencies" rather than of products. Managers need to think beyond current business boundaries, using skills from different divisions and exploring the "white spaces" between them.

Kodak, for example, has separate product divisions for photographic film and photocopiers. But it has brought together the competencies these products reflect – chemicals and electronic imaging respectively – to create an "electronic shoebox" which will allow photographic developers to turn film images into electronic images which can be viewed on conventional television sets.

Second, innovative products arise when companies switch from concentrating on customers and products towards needs and functions - the purpose for which products are made.

This may seem obvious, say the authors, "but we find such thinking in only a few companies" – although here, and throughout their paper, they provide frustratingly little evidence to back up the statement.

Third, managers need to reject the idea that price always needs to rise in line with enhanced performance. Sony and JVC saw $50,000 video tape recorders being produced by Ampex, the US electronics company, in the late 1950s, and resolved to create a similar product for $500.

Finally, product developers must lead rather than follow consumer tastes, to gain "deep insights into the needs, lifestyles and aspirations of today's and tomorrow's customers". Instead of simply asking customers what they want, or pushing them where they do not want to go, they should lead them in directions which they have not yet considered.

This demands more than relaying customers' requirements from sales staff to technical personnel. Companies must also keep the customer in touch with emerging technologies.

Having swelled its corporate imagination, a company needs to embrace the concept of expeditionary marketing: how to minimise the risks of staking out virgin territory. The secret is to increase the number of low-risk incursions into the market by lowering the time and cost of product "iterations" – launches and relaunches.

"By 1991 Toshiba had discontinued more laptop models than some of its flat-footed competitors had launched," they say. Between 1986 and 1990 it introduced no fewer than 31 models. The company is able rapidly to develop and launch a product, accumulate insights, recalibrate and relaunch.

Boosting iteration can come as a result of simultaneous development, which brings together technologists, manufacturing engineers and marketers as one team; establishing partnerships with other companies; re-using off-the-shelf technologies in new ways; and redeploying staff between different sections of a company.

However, none of these reforms will work unless companies rethink the meaning of failure. Conventionally, failure is personalised; this cuts down on experimentation because it leads to a search for culprits rather than lessons.

It is also defined in terms of revenue lost instead of revenue foregone as a result of lack of innovation. "Managers seldom get punished for not trying, but they often get punished for trying and coming up short," the authors say.

Management performance, they suggest, should be measured on the basis of financial returns – but returns adjusted for the risk and time involved. New opportunities require management attention disproportionate to their short-term return. During early development, the most critical resource is management talent, not cash.

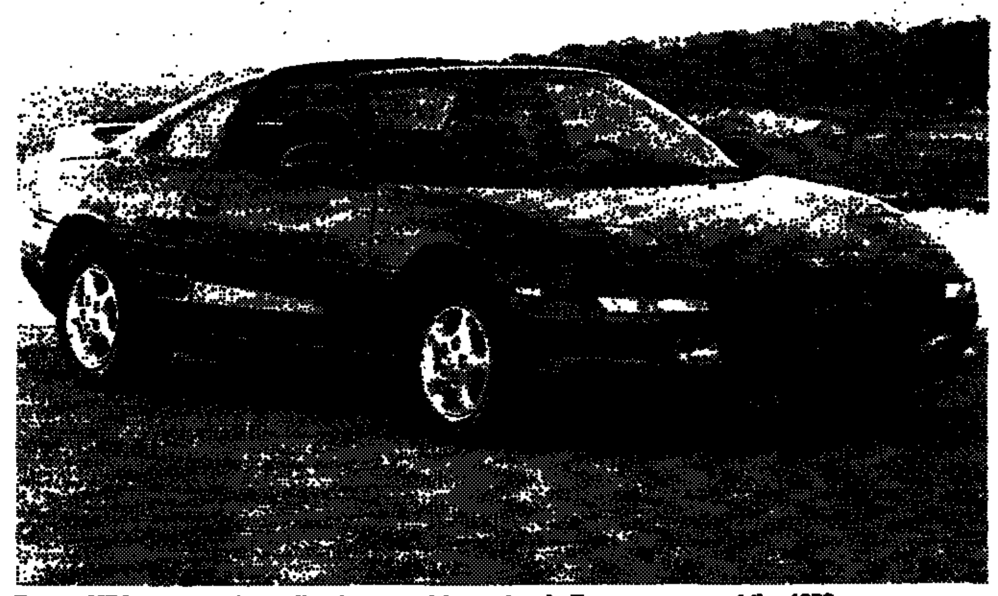
Until this "opportunity management" is cultivated by those at the top of the organisation, fear of failure is likely to be the main contributor to a lack of corporate success in the 1990s.

**Gary Hamel and C K Prahalad, Corporate Imagination and Expeditionary Marketing, HBR July-August 1991*

Product development

Toyota's conundrum: creating a global car for niche markets

Charles Leadbeater investigates demands made of the Japanese manufacturer's designers



Toyota MR2: much of the styling borrowed from classic European cars of the 1950s

A momentary look of pain passed across Hiroyuki Yoshida's face. The head of Toyota's design centre reflected: "Our most anguished decisions are over what should be done locally to reflect local requirements and what should be global."

From small beginnings in 1948 when a handful of designers started work at Toyota's first vehicle design centre, Toyota City, at Nagoya, south of Tokyo, the company's design effort has become inexorably larger and more complex.

It now comprises 600 designers working in four centres – two in Japan at Nagoya and Tokyo, a design bureau in California set up in 1973 and a recently established European centre near Brussels, Belgium.

When the Nagoya design department was set up, its main task was simply to transfer Western designs to the Japanese market. However, as Toyota has risen to become one of the world's leading car makers, so the demands made upon its designers have become ever more complex.

Yoshida and his team are grappling with four pressures which are changing the role of design within car companies and the skills demanded of those designers.

- Design is becoming increasingly important as the basis for efficient manufacturing. Products have to be designed to be made flexibly and with a high level of automation.

Recent launches of stylish Japanese sports cars have included the Toyota MR2, the Mazda MX5 and MX3 and the Honda NSX. This surge of interest in styling, much of it explicitly borrowed from classic European sports cars of the 1960s, should not be taken as a signal that Japanese manufacturers are any less interested in low cost, high quality production.

Yoshida says: "Whatever the merits of a design, it has to be robust enough to go through our engineering and manufacturing system. The commercial point of design has not been lost. We are in this business to make low cost, high quality cars for a mass market. We are making cars, not art."

Toyota's spread of its manufacturing system around the world means that even if cars are manufactured in the local markets where they are sold, they will have to conform to worldwide Toyota standards.

- Markets for cars are increasingly segmenting, not just internationally but between different social groups within national markets.

During the past decade, Honda has had to develop its Accord range from being a world car at the start of the 1980s – the same model selling in all markets – into a differentiated product. There are now two Accord ranges: a US-designed and manufactured Accord and an entirely separate version for Japan.

Yoshida says: "We now live in the age of diversification. There is apparently no limit to the amount of differentiation and diversity of preferences. If we cannot keep pace with the growth of this diversity we are bound to decline."

That means paying ever more detailed attention to the demands of consumers in different countries or age brackets, the different tastes of parents and people without children.

However, for commercial reasons car-makers will want to limit the impact that diversity has upon their operations. Yoshida explains: "To maintain the effectiveness of mass manufacturing, we have to limit the extent to which we design cars for distinct segments. We have to think of cars which would appeal to both old and young people. We have to recognise the different demands of these groups but also bridge them."

- The demands of distinct customer segments for different features and styling have to be reconciled with a set of other pressures.

Consumers want cars which are environmentally friendly but equipped with multi-valve, high-performance engines. They want lighter cars to help fuel efficiency but thinner materials have to be compatible with enhanced safety. There is a growing stress on components which can be detached and recycled.

- Finally, designers have to cope with these pressures while also making their work more efficient to reduce the time it takes the company to get new products into the market.

Yoshida says the main skill needed to manage an efficient design team is risk management – to minimise the risk that design effort is wasted.

The design centres' main customers are the chief engineers in charge of new car projects. Designers either submit ideas to the chief engineers or a design is put out to tender among the various design units in Japan and overseas.

Whichever centre wins the contest to produce the best design then takes responsibility for the project. Given the sheer weight of the company's design resources in Japan, most work is done there but the group's Californian studio is playing an increasingly important role, especially in more sporty cars.

Yoshida comments: "The real challenge for us is to make sure we draw on all our international creative talents, but at the same time to make the design process efficient."

ARTS

Anna Massey — Alastair Muir

Broadway Bound

GREENWICH THEATRE

The third play of Neil Simon's semi-autobiographical trilogy (after *Brighton Beach Memoirs*, which we have seen in London and *Biloxi Blues*, which we have not) stands at the parting of the ways. The two talented Jerome boys are about to quit the family home in Brighton Beach hot on the heels of their father, though for different reasons.

Eugene and Stanley are budding sketch-writers, Broadway-bound; Jack is a frustrated cloth cutter, intent on reclaiming his middle-age from domestic drudgery, who is sent up on air by his sons as being "in ladies' pyjamas."

On one level the play is about the dissolution of a Jewish family; on another it is about the awakening of a young writer poised between reality and fiction. Eugene (no longer the baseball-mad teenager of *Brighton Beach Memoirs*) recognises the dramatic potential of his mother's memories, but he is shocked by the realisation that his own art draws so transparently on family life.

It is a matter of record that Neil Simon, like Eugene, began writing with his elder brother, but the gist of the piece steers one away from simplistic parallels towards a broader appreciation of the links between autobiography and history. It would be possible to read into the character of Eugene, wry and semi-detached younger son to a doting Jewish mama, an authorial nod to the detractors who have attacked Simon for being overly sentimental and over-fond of the clever one-liner.

Eugene's authority as narrator of the comedy is determined by his ability to mine jokes from everyday life. Where his grandfather is for ever forgetting his punchlines and brother Stanley is hampered by excessive literalism, Eugene is able to cut through to the heart of apparent absurdity, while embodying a sly acknowledgment that we must find him funny because this is his play.

So, we laugh at the family's partial recognition of themselves in a radio sketch. And so, his mother – faded and pursed though she is – becomes the romantic belle of a ball in which she once danced with George Raft. Never mind that Raft asked her by proxy, that they never once looked each other in the eye, and that her motive was to attract the attention of the humble Jack. Gathering herself up behind a smile of sphynxlike dignity, Anna Massey conjures the graceful girl once again from the skin and bone of the wronged wife. Yes, it is sentimental, but it is also acute and – in magisterial performance by Massey – an affecting reflection on the nature of memory.

David Taylor's production suffers in its early stages from the inexperience of its Eugene. Toby Whithouse looks right, but has trouble establishing the quiet authority that the part demands of a character constantly upstaged by the frenetic managing of his brother (a splendid William Gaminara) and the benign bumblings of his grandfather (a nicely deadpan Frank Middlemass). Like the character he plays, I suspect he will gather confidence with time.

Claire Armitstead

TELEVISION

A fitting coda to the Thatcher years

On the hillside below Civitella del Lago, in southern Umbria, life proceeds much as it has for centuries. True, Pietro Bernardini comes down from his house in the village not on a donkey but in his droning "Ape" (with the two-wheel vehicle being called a wasp – "Vespa" – perhaps it was inevitable that the three-wheel version should be called a bee). But he arrives at the same time as previous generations, about 5.30 in the morning, and the bunches of broom that he brings with him to tie the new shoots of the vines onto the supports are indistinguishable from those used by his ancestors.

By 11.30 the sun is getting high and those of us new to physical labour in this climate are discovering the use of eyebrows: to stop the sweat running into your eyes and channel it down the sides of your face. Sig Bernardini has finished much of his day's work and is off up the switchback road to the village for lunch and a siesta, returning to his plants in the early evening, prior to supper, a chat on the town wall with the other farmers, and sometimes a drink in the town bar. The bar has a television, but the customers rarely look up from their *scopa* unless there is football on, and the farmers start going to bed at about the time Londoners are settling down to watch the news.

Television is, at best, peripheral in the life of these men, in summertime anyway, and anybody who even partially adopts their lifestyle immediately discovers the real significance of the box. Compared with the lack of mains water, the lack of a television is utterly unimportant. It is eye opening to return to a metropolis such as London and rediscover that average weekly viewing time is more than 22 hours; over three hours a day, *average*, which, given that many people still go to greyhound racing, poetry classes or whatever, must mean that those in front of the screen are putting in four or five hours a night.

Everyone you meet, of course, tells you two things: that they scarcely watch television these days, and that, even if they did, there is nothing worth watching at the moment. Then they switch the conversation and start talking about Wimbledon, giving a vivid description of Graf beating Sabatini. Gosh, you remark, how lucky to have had seats for the final. No, no, they say, they watched it on television. A little later, after a diatribe on London's traffic and the malice of the clamping crews, they tell you that while in Italy you missed most of Bleasdale's *GBH* which, they declare, is the best thing for years – far, far better than *Selling Hitler*.

To a latecomer the reverse seems to be the case. The final episode of Howard Schuman's series about the ludicrous incident of the "Hitler diaries" makes me wish I had seen all of it. Not only is the cast very strong, with Alan Bennett looking and sounding and even feeling like Hugh Trevor-Roper, while Barry Humphries conversely looks and sounds unlike Rupert Murdoch yet implies everything, but the production also has touches – too few, but they are unmistakably there – of that musical hyperbole which made Schuman's *Rock Follies* such a memorable and enjoyable series.

There is no difficulty in picking up what is happening in *Selling Hitler* whereas, in sharp contrast, the penultimate episode of *GBH* seems impenetrably dense and close to crazy. Who on earth are all these people, why are they living in a weird holiday village, and are we supposed to take the burglars seriously or not? Is it a dream sequence? Fortunately all one's own acquaintances from journalists to barristers, from children to old age pensioners, have been watching (though they want you to understand they scarcely look at the box at all these days) and are able to explain all the *roman à clef* references.

There is more drama, much more, and not all of it marked by that obvious second rate look with which summertime viewers have become so familiar over the years. Admittedly *Chimera* does seem to fall into this category, not being the sort of thing we expect from Zenith, one of the very best independent producers of drama in the country. Here we have what seems to be an over-stretched version of the Frankenstein tale, though two episodes have now passed without a single proper look at the monster. The main trouble is cliché, from the dialogue ("I don't understand you, what do you want from me" ... "This can't go on chief" ... "Don't worry I was the soul of discretion") to the "mystery" effects: people in white coats scurrying about a cobbled yard, with blue back-lighting creating sinister haloes, and one of those spooky Clannad-style music tracks in case you had not realised it was supposed to be frightening.

After a spell among peasant farmers in the depths of the Umbrian countryside our television critic wonders whether the viewing habit has really made us a richer society

But BBC2's "Screenplay", *Broke*, by Stephen Bill was a superb piece of work, a coda to the Thatcher years which had more to say about the pursuit of money than whole series of documentaries on yuppies or the profit motive. You have to be a writer of considerable subtlety to create a drama which can comment powerfully on Britain's disgraceful bankruptcy laws, and on the infuriating manner in which big debts make you rich while small debts create penury, without ever allowing slack into your plot or seeming to wag your finger at the viewer. Bill, well served by pacey direction from Alan Dossor and outstanding performances from Timothy Spall and Sheila Kelley as the victimised blind manufacturers, achieved all that and more.

And yet, with the memory vividly in mind of evenings spent at Civitella, watching the sun set over Monte di Melonta, and then the fireflies coming down the hill through the olive trees, I do wonder whether the viewing habit has really made us a richer society. Of course to understand is better than not to understand; to sympathise is better than not to sympathise. But does the watching of 22 hours television a week automatically make you a better person than the Umbrian farmer who may by chance catch the occasional football match or news bulletin?

It is surely undeniable that television creates a better informed society. Sunday evening alone brought the third in the series *Redemption Song*, made by another excellent independent company, Barraclough Carey, and the last of London Weekend's *Summer on The Estate* (also made independently, incidentally, though by a company that is new to me). In *Redemption Song* Stuart Hall showed us around the Dominican Republic, first illustrating the prevailing level of poverty, with most shanty town dwellers tapping illegally into the electricity supply, and then the president's ludicrously grandiose scheme for the "Santo Domingo Lighthouse Project", a vast monument which will throw light uselessly up into the night sky.

It was a nicely understated programme which made the inequalities of life only too clear, even if it did assume too readily that some causal connection had been proved between 19th century colonialism and poverty in the late 20th century. *Summer on The Estate*, a fly-on-the-wall documentary about life in a council tower block in Hackney, could hardly have been more different, except that a lot of the poorest people involved were again black. We saw a tape measure used to prove that, legally speaking, three adult sized people in one tiny room is not overcrowding, and watched as the council built a children's sandpit right in the target area for those who throw old television sets out of high rise flats.

Both programmes sparked compassion and told me things I did not know, as did *Viewpoint 91* on the training (or non training) of social workers, and half a dozen other programmes earlier in the week. But did they make me a better person than those who sit on the wall at Civitella of an evening and gaze out through the shrieking swifts and the silent bats across the valley of the Tiber? I doubt it.

Christopher Dunkley

Simon Keenlyside

SKINNERS' HALL, EC4

The baritone Simon Keenlyside, who won the City of London Festival's Walther Grüner Lieder Competition in 1987, has this year returned to the festival as a fully fledged Lieder singer. The time between 1987 and Monday's concert has been fruitfully spent (on the operatic stage as well as the recital platform).

The evidence for this assertion lay in the polish and beauty of the singing, and no less in the combination of powerful intelligence and intense emotional commitment that sparks through the vocal sound. Mr Keenlyside is maturing at his own pace – and plainly, that is fast. No longer can we rate him one of the most gifted and promising of young English singers: the distinct focus and "personal" cut and thrust of his artistry make it clear that gifts and promise are being realised.

His singing of Schubert, Strauss, Mahler and Wolf was on a very high level of achievement. The high lyric baritone, characterised by its appealing fast vibrato, flows freely and evenly across at least two octaves (with a surprising richness at the lower end); the delivery of German words has a native speaker's justness of colour and accent; the adjustments of tone and verbal stress are made with all the necessary finesse, but never to fancily over-ambitious or self-conscious effect.

The capacity for both lyrical sweep and dramatic intensity is rare. In the Schubert group, "Im Haine" (in spite of a false start caused by misremembered words) showed both traits in delicately passionate combination – lines shaped by a pinpoint control of dynamics, poetic images featherbrushed with clear vowels and light, robust consonants, every detail unerringly directed toward the larger impression of quietly rapturous Schubert nature-worship.

In Strauss and Mahler the singing-actor's command of wit and irony manifested itself in different ways: velvety in the former, with a particular smiling caress of "Winternacht" and "All mein Gedanken", razor-sharp and whiplash-keen in the latter.

It was unfortunate that Malcolm Martineau, generally a sound and supportive piano partner, should make rhythmical heavy weather of the Mahler "Fish Sermon"; his touch was likewise a bit heavy in "Revelge", though that did not spoil the chilling light-macabre inflections of Mr Keenlyside's mad-military tralalas. His concluding Wolf group was full of vivid illuminations, a summing-up of all the qualities revealed earlier.

If this singer's surname were German, would he already be making records with yellow labels? No matter: whether "discovered" by the big record companies or not, he is already one of the best young Lieder singers around.

Max Loppert

Kid Creole & the Coconuts

TOWN & COUNTRY

Well, this must be the end of civilisation as we knew it. There on stage Kid Creole, who for years made a good living camping it up as a sexual braggart, owner of the biggest machismo south of the Border, singing "No more casual sex". But is there not a twinkle in the eye of his Coconuts, a trio of beautiful bimbos, as they wave a deprecating finger and join in the chorus?. The Kid is just clowning, as usual.

August Darnell, a smart English graduate from the Bronx, never quite made it with his alter ego, Kid Creole, a parody of all those Latin band leaders whose decadent ways helped provoke the Cuban revolution. A decade ago he was a scream, with his sombrero as broad as a bell tent and suits so sharp they set the teeth on edge.

He orchestrated his musicians like a 1930s big band and ensured that they were all top pros, able to blast out a full Latin sound to a rock steady salsa beat. The Coconuts were a visual diversion which enabled the Kid to strut his ego while rivetting the audience with ever more distracting costume changes and body movements which owed more to the old music hall act of Wilson, Keppell and Betty than to Madonna.

The trouble was that the party atmosphere never transferred well to vinyl and the Kid's groove was rather obsessive. At the Town & Country on Friday the true believers were fewer than in the past and the carnival fire was slow to ignite. Even the Coconuts seemed subdued, and reluctant to indulge the Kid's despotic demands.

But you can't really resist the joke and by the time August had eased into the wonderful nonsense of "Annie, I'm not your Daddy" the crowd had congealed into one gyrating whole and enjoyment was total. Yet there is something disquieting about this talented musician stuck into performing the same pastiche of sexual tackiness night after night. It was always style rather than content and August needs stronger new songs – or the desire to be even more outrageous – to avoid letting one of the sharpest pop acts yet devised decline into a mechanical stereotype.

Antony Thorncroft

Cheltenham Festival

It would seem that audiences at Cheltenham have long memories. Put in front of them a piece of music that failed to meet with their approval when it was first performed at the festival 20 years ago and they stampede from the building in their haste not to hear it again.

The author of the offending work was this year's composer-in-residence, Peter Maxwell Davies. In his varied appeal Davies probably makes a good choice for Cheltenham these days. He is a lively communicator in the pre-performance talks and comes with plenty of recent scores in his baggage, which allowed the festival to claim a few prestige premieres, even if all the music had actually been heard in some form or other before.

The main work on Friday's programme was the first performance of a suite from his ballet *Caroline Mathilde*, premiered earlier this year in Copenhagen. In this selection Davies has organised his material cleverly, so that a few dances of 18th-century cut lead to more substantial episodes later. There is a strong rhythmic sense and a lot of fine atmospheric writing; but the whole thing is composed in a dance style that is quite deadeningly conventional.

It is difficult to feel that *Caroline Mathilde* has inspired the composer. Rather it has curtailed his imagination to fit the requirements of a full-length ballet with all the compromises that involves, and the result is that we find ourselves dancing on familiar ground to high violin lines and disturbed classical harmonies. The score is the very echo of Prokofiev, whose *Romeo and Juliet* was coincidentally playing just up the road.

To turn from that to the *St Thomas Wake Foxtrot* (UK premiere Cheltenham, 1969) was an aural shock. Apparently this work has its origins in the composer's experiences as a boy in war-torn Manchester, when he would sit in the cupboard under the stairs playing foxtrots on 78s while the bombs whistled about his ears – a truly Mahlerian case of association. It is a noisy score, which positively revels in the chaos it creates, for Davies was here saying what he wanted to say with no inhibitions at all. Those who stayed to hear it will surely have been astonished at how the composer's style has changed since *St Thomas Wake* first exploded into life here. The BBC Philharmonic Orchestra under Davies's own baton detonated it with panache.

The other premiere of the festival's middle weekend was Michael Nyman's *Where the Bee Dances*, written for the saxophone-player John Harle. Nyman claims this piece to be a concerto in all but name, though it did not seem so from its single-movement form or, more importantly, from the limited scope of its material. An attractive slow introduction sets up a keen sense of expectation, but the standard minimalist formulae which follow fail to develop in the way one might have hoped. Nyman hits a plateau of activity about seven or eight minutes in and seems unable to vary the pace until the very final strait, when Harle brought off a frenetic ending.

The Bournemouth Sinfonietta put up a good show in it and followed with commendable performances of Wagner's *Siegfried Idyll* and Schubert's Fifth Symphony, under Ivor Bolton. The Nyman, incidentally, met with an enthusiastic audience response; in the event of the piece being performed at Cheltenham 20 years hence, it seems unlikely that there will be a mass walk-out.

Richard Fairman

Prudential Awards

The winners of the five categories of the Prudential Awards for the Arts were announced yesterday. Each recieves £25,000 and the overall winner, announced in October, will receive a futher £75,000. They are: Scottish Chamber Orchestra, music; DV8, dance; Mecklenburgh Opera, opera; Gate, Notting Hill, theatre; Dulwich Picture Gallery, visual arts.

INTERNATIONAL ARTS GUIDE

TODAY'S EVENTS

AMSTERDAM

Concertgebouw 20.15 Eivind Aadland conducts the European Community Chamber Orchestra in Britten's Simple Symphony, Haydn's *Symphony No 47 and* Bartok's Romanian Dances, with Ana-Maria Vera soloist in Haydn's Piano Concerto in D. Tomorrow: piano recital by Jean Schneider. (6718 345)

ATHENS

Herod Atticus Theater 21.00 Lyceum of Greek Women, folk dance troupe. Sun: Byron Fidetzis conducts the Orchestra and Chorus of Greek Radio. Tomorrow and Fri in Lycabettus Theater: Stan Getz Quartet (322 1459)

GENEVA

Hôtel de Ville 20.30 Geneva Chamber Opera: Michel Philippe conducts the Orchestra of the Collegium Academicum in Peter Heubi's ballet Caricatures, with music by Franz Tischhauser, and Heinrich Sutermeister's one-act comic opera Seraphine. Repeated *tomorrow, Sat and Sun. Fri:* Gregory Cass plays Schoeck's *Horn Concerto with the Orchestre* de la Suisse Romande conducted by Fabio Luisi. Next Mon: Luca Pfaff conducts Orchestre Symphonique du Rhin-Moulouse in music by Robert Suter, Mahler and Stravinsky. Sun and Mon in Church of Saint-Germain: Enrico Onofri and Michel Kiener play violin sonatas by Mozart (289982)

LONDON

DANCE

Coliseum 19.30 Ballet Nacional de Espana presents two flamenco works including Alberto Lorca's Ritmos, plus Jose Antonio's duet Romance de Luna and Jose Granero's Medea, with an original score by Manolo Sanlucar. Repeated tomorrow, Fri and Sat. Season lasts till July 28 (071-836 3161)

MUSIC

Covent Garden 19.30 Mark Ermler conducts a revival of Piero Faggioni's production of La fanciulla del West, re-staged by *Wilfred Judd. The cast is led by* Mara Zampieri, Giuseppe Giacomini and Silvano Carroli. Also Fri and next Mon. Tomorrow: La Cenerentola. Sat: Orfeo ed Euridice (071-240 1066)

Royal Festival Hall 20.00 Chick Korea in concert. Tomorrow: B.B.King. Fri: Miles Davis (071-928 8800)

Queen Elizabeth Hall 19.45 Colin Davis conducts the Chamber Orchestra of Europe in Stravinsky's Danses concertantes, Haydn's Symphony No 99 and Mozart's Clarinet Concerto, with Richard Horsford (071-928 8800)

Barbican 19.45 Valery Gergiev conducts London Symphony *Orchestra in Tchaikovsky's Fifth* Symphony and Prokofiev's First Violin Concerto, with Maxim Vengerov, winner of the 1990 Carl Flesch International Violin Competition. Fri: jazz pianist George Shearing joins the King's Singers and the LSO (071-638 8891)

THEATRE

National Theatre

Tonight and tomorrow, the Olivier is showing Philip Prowse's production of The White Devil (1612), a tragedy by John Webster exploring the themes of ambition, desire and revenge among the palaces and cathedrals of Renaissance Italy. On Fri and Sat, the Olivier has Moliere's The Miser, directed by Steven Pimlott. The Lyttelton's repertory includes Richard III tonight with Ian McKellen, who also stars later in the week in a production by Richard Eyre of Eduardo de Filippo's play Napoli Millionaria (1945), a tale of ambition and the will to survive in wartime Naples. The Cottesloe is previewing *Mustapha Matura's satirical new* play The Coup (Press night on Thurs), inspired by the troubles in the Caribbean which culimated in last year's attempted coup in Trinidad.

For ticket information and inquiries about other shows, phone Theatreline from anywhere in the *UK: Plays 0836 430959 Musicals* 0836 430960 Comedies 0836 430961 Thrillers 0836 430962

MADRID

Teatro Lirico La Zarzuela 20.00 Antoni Ros Marba conducts Nuria Espert's production of Madama Butterfly, with decor by Ezio *Frigerio and costumes by Franca* Squarciapino. Yoko Watanabe sings the title role and Arthur Davies is Pinkerton. Repeated Fri and Sun (429 8225)

MILAN

Teatro alla Scala 20.00 Ballet triple-bill, with works by Frederick *Ashton, Agnes de Mille and* Amedeo Amodio. Runs till Sat (7200 3744)

MUNICH

MUSIC

Staatsoper 20.00 Giuseppe Sinopoli conducts Guerrelieder, with Margaret Price, Hanna Schwarz, Rene Kollo, Oskar Hillebrandt and Kenneth Riegel. Tomorrow: Die Zauberflote. Fri: Fischer-Dieskau sings Schubert (221316)

Herkulessaal der Residenz 20.00 Lucia Popp, accompanied by Irwin Gage, gives a recital of songs by Dvorak, Mahler, Wolf and Richard Strauss. Next Mon: Kurt Moll song *recital (221316)*

THEATRE

Kammerspiele 20.00 Goethe's Stella, new production directed by Thomas Langhoff with decor and costumes by Jurgen Rose, also Fri, Sat and Sun. Tomorrow: Thomas Bernhard's Der Theatermacher directed by Hans *Lietzau (23721 328)*

Prinzregententheater 20.00 Moliere's L'école des femmes, directed by Barbara Bilabel. Sat: Steve Berkoff's new production of Shakespeare's Coriolanus (225754)

Theater im Marstall 20.00 Elektra, Hugo von Hofmannsthal's play directed by Kirsten Esch (225754)

NEW YORK

DANCE

Metropolitan Opera 20.00 The Royal Ballet presents Kenneth MacMillan's full-length ballet Manon, last seen in New York 17 years ago. Manon is repeated tomorrow and Fri, with matinee *and evening performances on Sat* (362 6000)

MUSIC

Avery Fisher Hall 20.00 Gerard Schwarz conducts Mostly Mozart Festival Orchestra in music by Mozart and Beethoven, with the Labeque Sisters and Barry Tuckwell. Tomorrow and Fri: Vladimir Feltsman plays Beethoven's own arrangement for piano of his Violin Concerto. Sat and Sun: Mozart and the Dance, with the Lar Lubovitch Dance Company (875 5030)

New York State Theater 20.00 NY City Opera production of Turandot, conducted by Guido Ajmone-Marsan, directed by *Jonathan Eaton and designed* by Beni Montresor, with Ealynn Voss in title role, Thomas Booth as Calaf and Edith Davis as Liu, repeated Sat matinee. Tomorrow and Sun: Bizet's Pearl Fishers. Fri: Sondheim's A Little Night Music. Sat: Tosca (870 5570)

THEATRE

Mr Gogol and Mr Preen is Elaine May's poignant, funny play about the relationship between an ageing New York writer (Mike Nussbaum) and a vacuum-cleaner salesman (William Macey). (Mitzi E. Newhouse, Lincoln Center, 239 6200)

The Sum of Us is David Stevens' poignant comedy examining of *the relationship between an* understanding widowed father and his homosexual son living under the same roof (Cherry Lane, 38 Commerce Street, 989 2020)

PARIS

Opéra Bastille 19.30 Armin Jordan conducts Robert Wilson's *production of Die Zauberflöte, with* costumes by John Conklin and choreography by Andy de Groat. The cast is led by Cynthia Haymon, Christian Boesch, Gösta Winbergh, Wolfgang Schone, Clarry Bartha and Carsten Stabell. Last performance on Fri. Tomorrow: Götz Friedrich's production of Katya Kabanova (4001 1616)

PRAGUE

Theatre K 20.00 Prague Festival Ballet presents triple-bill of works by one of Czechoslovakia's promising young choreographers, David Slobaspycky]: A Short Piece for Eight, music by handel; *Minotaurus, music by Masrtinu;* and Whispers, set to Moravian folk songs. Tickets from Theatre K box office (open from 15.00), Jungmannova ulice 1, Prague 1 (235 0975) or from Cedok (212 7212)

ROME

French embassy, Palazzo Farnese 21.30 Pierre Boulez conducts Ensemble InterContemporain in music by Varese, Petrassi, Berlo, Messiaen and Grisey, also tomorrow. Fri: Ensemble InterContemporain plays programme of new chamber music. (6795 370)

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1200 International Business Report
2130 (Thurs) Financial Times Business Weekly

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Wednesday July 17 1991

The blame for BCCI

THERE IS one aspect of the closure of Bank of Credit and Commerce International (BCCI) that strikes both expert and layman as downright odd. Everyone in financial circles has known for several years that BCCI was shaky. Yet the Bank of England, which is known to have been concerned over a long period, failed to act until late in the day. The impression, as with the Bank's earlier performance over Harrods Bank, is one of dilatory response in the face of overwhelming evidence of the need to act. How far is the Bank of England at fault? And what, if anything, should be done to tighten up the system?

In the absence of more detailed information about what the regulators and auditors did and did not know at key moments in the saga, judgments are inevitably provisional. The immediate and pressing need is for an inquiry to establish the facts; one, moreover, with tougher terms of reference and a less cosy composition than the handful of wise men from the Treasury and the Bank of England who looked into banking supervision after the Johnson Matthey (Bankers) fiasco.

Unique case

That said, it is important to recognise that the BCCI affair is *sui generis* – a case of fraud at the highest level in a group regulated by several supervisory authorities in different countries and in which the auditors confronted language and cultural problems in getting at the truth. Since 1987 regulatory responsibility has been collective within a college of supervisors, which shared information and pooled the powers of the respective watchdogs in a collaborative process. The greatest responsibility must lie with the Luxembourg and Cayman authorities, whose job it was to supervise the main companies within the BCCI group. The question is what the regulators could have done that would have resulted in a more satisfactory outcome for depositors.

The suggestion that depositors could somehow have escaped with fewer losses if the regulators had warned that BCCI was badly run, or worse, is simply naïve. A bank supervisor's warning, like a qualified bank audit report, is a nuclear option, since it precipitates a run on the bank. That is the most dangerous and least equitable way to look after the depositors' interests.

Real issue

The real issue is whether the regulators made sufficient use of their other powers. The Bank of England, for example, has legal authority to exert considerable influence over the composition of top management in those parts of the group that lie within its jurisdiction. It is conceivable that the fraud might have been discovered at an earlier stage if that power had been used more effectively. Still harder to understand is the Bank's failure to put a ring fence around the British branches of BCCI to insulate them from trouble in the rest of the group. There have been ample excuses for such a pre-emptive move over many years.

Those in the college of regulators appear to have been too ready to look to the next man to solve the problem and ultimately to look to the bank's majority shareholder, the ruler of Abu Dhabi, to become the *deus ex machina* who would take them all off the hook. Each new fact that emerges points to a flabby response to events, until the joint decision was finally and rightly taken to close the bank.

One pressing need is to confront the implications for the European Community's first banking directive which, in response to Bank of England lobbying, is based on home country control. Had this already been in force the Bank's powers in relation to BCCI would thus have diminished and effective regulatory authority ceded to Luxembourg. Clearly the quality of supervision in the smaller countries must be levelled up more quickly. The forthcoming deposit protection directive must also be given more impetus to correct the anomaly whereby British, not Luxembourg, banks will end up paying for Luxembourg's regulatory failure. The BCCI affair demands not only national responses, but a serious look at how the global banking market should be regulated.

Time for Israel to respond

SYRIA'S keenly-awaited response to America's proposals for a Middle East peace conference has been described by the White House as a "breakthrough" and "real movement in the search for peace".

Never has an American Administration been so upbeat about Syria, a country which has frustrated previous US initiatives in the region and prided itself on its implacable opposition to Israel and its commitment to self-determination for the Palestinians. It is a measure of how emphatically the balance of power has swung away from the Arab nations during the past 15 years that President Assad should, over a few months, have sent troops to fight alongside western forces in Kuwait and now endorsed Washington's plans for a Middle East peace conference.

How fundamentally the Syrian leopard has changed its spots is debatable, but there is no doubt that the political territory in which it operates has been transformed. The Arab option of imposing a military solution on Israel all but disappeared when Egypt signed the 1979 peace treaty and was buried with the smashing of the Iraqi army's offensive capacity earlier this year.

Heavy symbol

The Soviet Union, with which Syria has a treaty of friendship and co-operation, is no longer a counter-balance to the US in the region and cannot be relied upon again as an arms supplier. The threat of the Gulf oil weapon has evaporated, with the biggest Arab producers firmly in America's debt and Iran seriously weakened by its eight-year war with Iraq. Nothing has been more symbolic than the agreement of members of the Arab League to re-establish the organisation's headquarters in Cairo, the only Arab capital with an Israeli embassy.

Israel, which has always emphasised its desire for a negotiated settlement with its Arab neighbours, logically should be enthusiastically exploring the opportunities opened up by such changes. Syria is now, apparently, willing to come to the negotiating table and discuss swapping land for a peace treaty. Egypt has already been there. Jordan will attend and while the Palestine Liberation Organisation will try to salvage what it can from a difficult situation, it cannot veto the process.

Regrettably, Israel has so far rejected Mr Bush's proposals, which had already been modified to accommodate some of its objections. Unless more substantive reasons are advanced Israel's opposition appears to rest principally on the presence of a non-speaking UN representative at the peace conference and to the proposal that six months after the opening ceremony the conference will reconvene to review the progress made in subsequent bilateral contacts.

Absurd demand

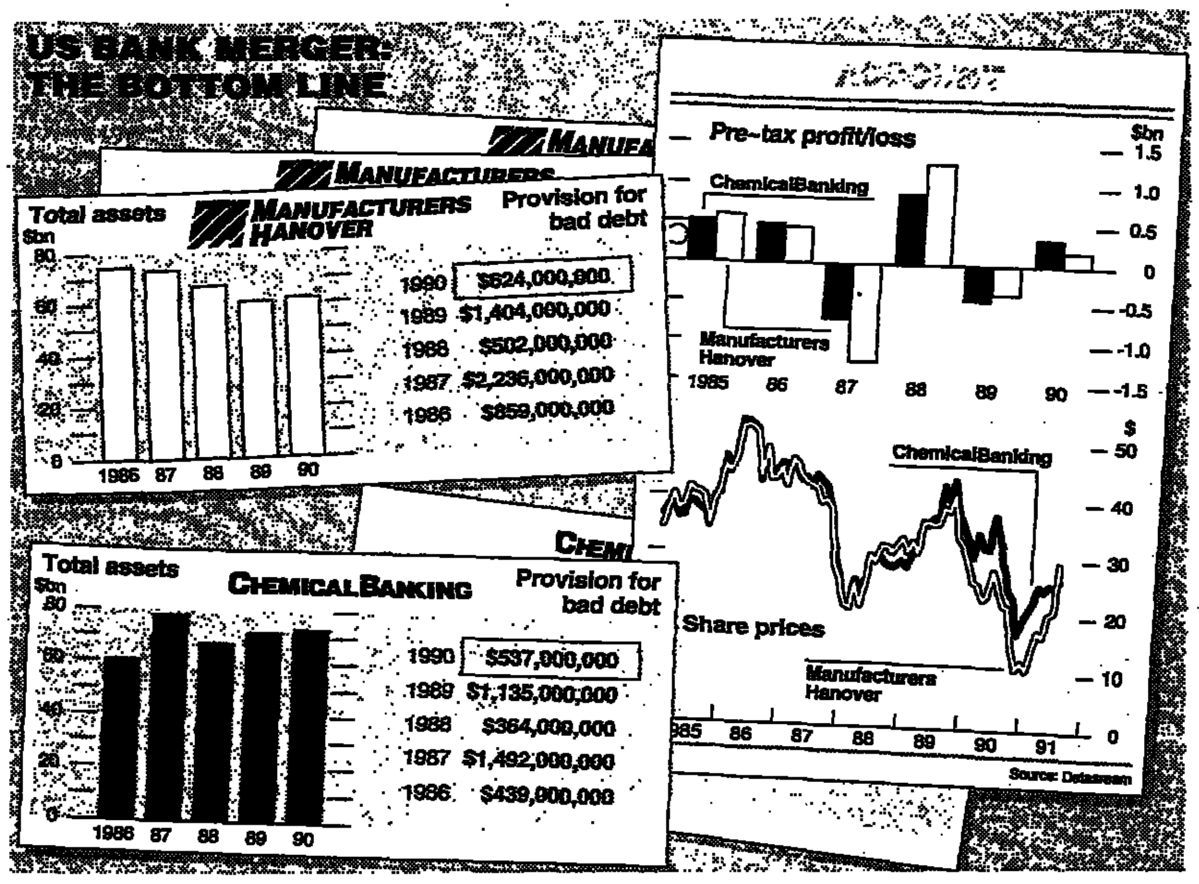
The exclusion of the UN, which Israel is demanding, is absurd, given the vital UN role this year in the Gulf, the desire of the G7 meeting in London this week to strengthen it and Security Council resolutions 242 and 338, which form the basis of international negotiations on the Arab-Israel conflict. Equally there seems little point in convening a conference without any prior commitment that it will ever meet again.

Mr James Baker, the US secretary of state, who sets off tomorrow on his fifth trip to the Middle East since the end of the Gulf war, may reasonably expect Israel to modify its attitude to these issues now that they have become the primary obstacle to convening a peace conference. And that, it must be remembered, should be the easy part. The tough, substantive issues have yet to be addressed.

The US would be grateful for Israel's co-operation, just as Mr Yitzhak Shamir, Israel's premier, would like American co-operation in providing $10bn in loan guarantees to assist settling Soviet Jewish immigrants. Such linkage should not be viewed as threatening Israel, but just part of the normal give and take of international relations. Israel has always been viewed in the west as a specially deserving case. That enviable position will be eroded if it refuses to explore fully the chance of resolving one of the world's most destabilising conflicts.

Alan Friedman on the challenges facing the partners in America's biggest banking tie-up

Merger with a mission to earn



It was a curious sight. Seated in an office suite on Park Avenue yesterday morning, the chairmen of two of New York's hardest hit commercial banks – Mr John McGillicuddy of Manufacturers Hanover Trust and Mr Walter Shipley of Chemical Bank – were behaving like a couple of college room-mates who had just completed exams.

The cherubic and silver-haired Mr McGillicuddy and the lanky Mr Shipley are the talk of New York as they celebrate the merger of their institutions, the biggest merger in US banking history. They have reason to be cheerful – up to a point.

After a 30-year friendship – they met as junior corporate lending officers in a Kansas City, Missouri, steak house in the early 1960s – the two began discussing a merger in 1989. "But the timing," as Mr McGillicuddy puts it, "was not right."

Manny Hanny was burdened with heavy Third World debt losses and Chemical was saddled with its own home grown losses from its costly acquisition of Texas Commerce Banchares, which was hit by the state's oil decline.

Informal talks continued, but last year both banks were preoccupied with the US real estate crisis and other problem loans stemming from debt-laden corporate deals. It was only two months ago – on May 17 – that the two got together at New York's Intercontinental Hotel and decided the time for a merger had finally come.

Now, two weak US commercial banks are being pooled to create an entity with assets of $135bn. The new bank, to be called the Chemical Banking Corporation, will leapfrog Chase Manhattan to become the second largest in the US.

More importantly, as US banking shows tentative signs of emerging from crisis, Chemical and Manny Hanny are seeking to generate new earnings by bringing together their consumer, small business and middle-market divisions, which they see as prime areas areas for growth.

The most important strategic challenge is to "take our retail and middle market and move on that", says Mr McGillicuddy. He and Mr Shipley stress that as a combined unit the merged bank will have 40 per cent of the consumer deposits of the five top banks in the New York area and the largest branch network. That compares with 29 per cent of such deposits for Citicorp.

"When you have a power position in a marketplace you have to really mess it up to lose it," says Mr Shipley. Mr McGillicuddy, chomping on his ever-present cigar, adds: "We really came together because neither of us individually is able to become a player in the changing banking scene."

Like other big US commercial banks, Manny Hanny and Chemical found last year that their credit rating was slipping and and with it their welcome in money markets. Cost-cutting and capital-boosting have been top priorities for all the big banks, and in explaining the merger Mr McGillicuddy says the problem for many big US banks today is not whether they will fail, but whether they have sufficient capital to finance an aggressive strategy in key areas such as retail banking.

It is thus no coincidence – even though the merged entity will have a respectable common equity-to-assets ratio of 4.46 per cent, compared with Citicorp's 3.7 per cent – that a $1.25bn stock offering is planned for shortly after the deal is closed at the end of the year.

In the recession-struck New York regional economy, all of this means taking on Citicorp, America's leading bank. Both Citicorp and Chase Manhattan continue to be beset by the costs of overblown staffs and real estate loan losses. Chase, for example, said yesterday that it expects problem commercial real estate loans to continue until the end of 1991.

Mr McGillicuddy does not hide the fact that "problems continue to revolve around our ability to deal with problem assets". Neither of the two chairmen claims that the problem of less-developed country loan exposure – a greater problem for Manny Hanny than Chemical – has gone away. But they point out that the real issues are Brazil and Argentina, where both banks have, respectively, already written off 40 per cent and 70 per cent of their loans.

Nor do the new colleagues claim they can ignore their exposure to highly leveraged transactions (HLTs) left over from the go-go world of corporate deal-making in the 1980s. Some 9.3 per cent of the merged bank's HLT loans are non-performing.

Commercial real estate is the trickiest area, and a full 15.1 per cent of the merged bank's loan book is non-performing. Mr Shipley points out, however, that Chemical's problems are mainly in Texas, where the market is improving.

Mr McGillicuddy admits to having "some Trump" loans in New York (Mr Shipley chimes in by saying "We have no Trump"), but he claims the worst of the real estate crisis is over. None the less he expects there will be more pain on the real estate front: "That's a fact of life."

Looking overseas the two bankers say they will merge their London operations, which have a principal strength in foreign exchange dealing. They have not yet decided whether to house the combined office at Chemical's Strand headquarters or the new facility Manny Hanny was planning at Canary Wharf.

Neither bank, however, has a substantial international presence. Chemical, in common with others, has undergone retrenchment from European and Asian markets. "We don't have any pretensions about taking people on in their home markets," says Mr Shipley. The goal outside the States is to maintain capital market operations and to originate and package corporate finance, mergers and acquisitions and merchant banking business.

But the subject that truly inspires Mr McGillicuddy and Mr Shipley is the idea of first achieving the merger itself – and with it the 6,200 redundancies needed out of a combined workforce of 45,000 – and then pressing ahead to generate improved earnings from the bank's consumer and small business franchise.

It is in the retail and small-to-middle-market business areas that both bankers claim to have suffered surprisingly low losses. And this is the area that is proving most profitable across the US, especially for those regional institutions that have not incurred heavy corporate loan losses.

Looking ahead, Mr Shipley dreams of expanding the branch network into the New England region, but he makes clear that this will have to wait until the merger is completed and has begun to function. "First we need to establish a platform with which we can move forward," he says.

The compatibility of Mr. McGillicuddy and Mr Shipley (60 and 55 respectively) does not seem to be in doubt, and both seem comfortable with plans for the former to become chairman until the end of 1993, at which point Mr Shipley will take over.

Mr McGillicuddy also insists there is no clash of cultures between the two institutions. At a celebration party for 300 top managers of both banks, he says "the vibes were terrific". Those who have seen the two bankers together in recent days say they are ensconced in "The Walt and John Show". What is clear, however, is that it will soon be time to settle down to the hard part, making sure the new bank works – and earns.

The key to competition

Peter Riddell examines the stony path of US banking reform

Mr Nicholas Brady, the US Treasury secretary, has often complained that the US no longer has any of the world's largest banks (none in the top 20). So he has unreservedly welcomed the proposed merger of Chemical Bank and Manufacturers Hanover as creating "a much stronger unit".

The deal fits in with his view of how the fragmented US banking industry should change. The merger could be just the first step towards a much larger restructuring. But that depends on how far the US Congress accepts the proposals for comprehensive banking reform put forward by Mr Brady five months ago.

The signs so far are that the banking committees of both the House and Senate are prepared to be more radical than many suspected earlier this year, but not to go as far the Treasury would like.

The Treasury plan was intended to scrap much of the restrictive legislation enacted in the 1930s in reaction to widespread bank failures. That prevented links between commercial and investment banks, stopped banks from operating branch networks across state lines and prohibited commercial businesses from owning banks. As new financial instruments such as money market funds and the commercial paper market have developed, these restrictions have looked increasingly out-of-date.

The US banking industry has been left looking uncompetitive. The collapse of the property market in many parts of the US, and the recession, have resulted in the largest losses from bank failures since the 1930s. The federal fund which protects bank depositors will be insolvent by the end of the year unless action is taken.

Congressional leaders now accept the seriousness of both the immediate problems and the structural weaknesses. But they want to avoid a repetition of the expensive, and unpopular, taxpayer rescue of the savings and loan industry. Hence the guiding principle is avoidance of risk.

The House and Senate committees face many pressures – from small banks wary of being squeezed out by big national banks, from large banks eager to expand, and from investment houses and insurance groups anxious about new competition.

The House Banking committee in June approved its version of a bill and the Senate Banking committee will vote on its plan this month. But there are hurdles, notably the opposition to changes affecting the securities business from leaders of the House Energy and Commerce committee. The shape of the final measure will not be clear until October.

The odds are that banks will be able to run branch networks across state lines, thus opening the way for considerable cost savings. For instance, the merged Chemical/Manufacturers Hanover will own banks in New York, New Jersey and Texas. However, there is pressure in the Senate to grant state legislatures an opportunity to impose restrictions on such expansion.

The Glass/Steagall restrictions on links between commercial and investment banks may also be repealed, though subject to very strict restrictions or firewalls to prevent insured deposits being used to finance securities' activities. And there is a furious debate about how far banks can expand into insurance.

The Treasury has proposed that commercial businesses should be allowed to own banks as a means of injecting new capital into the industry. While this change was accepted by the House Banking committee, it stands little chance of being passed in view of the opposition of many senators, the House Energy and Commerce committee and the New York Federal Reserve.

There is still much uncertainty about the legislation. But the chances are that it will permit, and be followed by, both internal restructuring of bank operations across state lines to save money and a further wave of mergers to create larger, more diverse and more competitive units.

OBSERVER

Consumer put down

■ Given the UK government's championship of citizens' rights, Observer is pained to hear it plans to demote the next director of the National Consumer Council. After all, ministers have hijacked several of the NCC's ideas in their courting of the common herd.

The 16-year-old quango, supposed to jump up and down making lots of noise protecting consumers' interests, is by most accounts doing quite well on its slim £2m yearly budget. But somebody official has decided the council's director needs taking down a peg.

Current boss Maurice Healy ranks as a grade three civil servant equivalent in status to Clive Newton, the under secretary in charge of consumer affairs at the Department of Trade and Industry, the NCC's sponsoring ministry. Yet, in the search for Healy's successor, the post is being advertised as a grade four job. Indeed, had the protocol merchants had their way, it would have fallen to a mere assistant secretary's grade five.

The drop in pay means less than the cut in status. The NCC director has to negotiate on consumers' behalf at "the highest level in government, industry and elsewhere", and if such a small organisation is to get its message around, it needs to recruit a big wheel.

Downgrading the job is the last thing the government should have done – if, that is, it really is committed to protecting the consumer as distinct from just winning the next election.

Showing off

■ Michael Smurfit, Ireland's paper and corrugated case king, was in his element this week showing the glitterati around his new £25m country club, hotel and Arnold Palmer designed international golf course in Co Kildare.

Prime Minister Charles Haughey and his wife Maureen were guests of honour at a lavish opening attended by most of Ireland's notable and quotable. Glamour was supplied by a rare appearance in the isle of Birgitta, Smurfit's second wife, a Swede who seems to spend most of the time at the official Smurfit residence in Monaco, which also functions as Ireland's consulate in the principality.

The paper potentate's venture into the risky leisure and pleasure business has been questioned by some: a £22.5m investment in Brent Walker is looking none too healthy.

Even so, Ireland's premier business tycoon (the Smurfit company accounts for about 20 per cent of the total capitalisation of the Dublin stock market) is convinced there will be no shortage of customers for his Kildare, or "K" club.

Anyone interested in joining will have to hurry as membership will be strictly limited. The fee is a snip at a round 10,000 Irish pounds yearly, or £755 a month.

Bounce back

■ Meanwhile feisty Irishman Peter Sutherland, who put teeth into European Community competition policy when he was commissioner responsible for same in 1985-88, looks to be preparing a springboard back into the European arena. Yesterday he became the first non-Dutch chairman of the European Institute of Public Administration in Maastricht.

This worthy if little known body runs courses on EC policy issues each year for a couple of thousand civil servants from the community itself and from the national administrations of the Twelve. If it wants to beef up courses on EC competition policy, who better to turn to than the man Jacques

"We got the western aid – you're all fired."

Delors dubbed the "little sheriff" for his crackdowns on cartels and state aids?

Sutherland was denied a second commission term he very much wanted because, as he's a Fine Gael man, the arrival of Haughey in power put him on the wrong side of the political fence. Since, however, Sutherland has been not only earning a living as chairman of Allied Irish Banks, but keeping his Community hand in.

He is already on the board of the Centre for European Policy Studies in Brussels. The institute chairmanship, too, will give him a ringside seat at the slugging match over political and monetary union at December's EC summit.

PR ding dong

■ The best public relations folk can always put whatever spin they want on a story, and so it is with Sir Tim Bell's latest coup – representing the wealthy Arab owners of BCCI in their battle with the Bank of England.

Bell's trade enemies see it as yet another sign that Mrs Thatcher's favourite PR man is having to hustle ever harder to meet his large overheads now his patroness has headed into the political sunset. Controversial accounts like Mountleigh may bring in big fees but they also raise eyebrows, say his establishment critics.

By contrast his admirers view it as a sign that his contacts are as strong as ever.

"We are in the business of promoting our clients, not ourselves" says Bell who is reluctant to publish his client list. He nonetheless stresses that blue chip names like Hanson, GEC, P&O and Cable and Wireless far outnumber the more controversial ones.

Lowe Bell, his company, does not publish its revenues. But if it did, he adds, it would be number one in the UK and number two internationally after Shandwick. For the moment we will have to take his word for it.

Marks of culture

■ A newly published "Cultural guide to doing business in Europe" offers the following profound insights: "Almost every Irishman will spend some part of each day in a pub"; "The Belgians shake hands when meeting"; and in Britain: "Feet should always be kept off furniture and legs should not be conspicuously crossed."

The author, Prof Robert Moran, teaches international management in Arizona. He dedicates the book to his students, many of whom, he says, are "multicultural persons". And they keep their feet off the furniture, too.

Sobering

■ While not wishing to be a killjoy, I must point out that the last time the FT-SE 100 hit an all-time high on a July 16th (in 1987), it then fell by 36 per cent over the next four months and took more than two years to climb back.

LETTERS

Kent 9% set by local formula

From A H Hart.

Sir, Your story, "Breakaway councils exceed national pay levels", of July 5 contained the bald statistic that Kent had settled at 9.1 per cent for its white collar employees. The annual cost-of-living pay award for the staff concerned was in fact set at 7.8 per cent.

Our local formula includes a carefully-researched calculation that takes into account special recruitment factors in Kent and the south east and this resulted in 1.3 per cent being added to the settlement. I think it is only fair to detail the complete breakdown of the figure to avoid confusion with national settlements. This was, in fact, made clear in the Local Government Chronicle survey referred to in the story.

Our next local settlement will take full account of the declining rate of inflation and current economic factors.

A H Hart,
leader,
Kent County Council,
County Hall,
Maidstone, Kent

BCCI liaison

From Mr Philip I Thomas.

Sir, Interested parties may contact this organisation on the following numbers: telephone, 0483 61643; answerphone, 0483 223506; and fax, 0483 211584.

The group will liaise for individuals and companies affected by the Bank of England's actions.

Philip I Thomas,
group co-ordinator,
BCCI Depositors' Protection Group,
Autumn Cottage,
30 Ganghill, Guildford, Surrey

BCCI highlights need for regulatory and monetary policy changes

From Mr George McKenzie.

Sir, The failure of BCCI raises two serious problems with the way that regulatory authorities around the world treat bank failure. These problems are relevant not merely to the Bank of England and banks whose failure arises from the detection of fraud.

First, the efficient functioning of free markets depends upon the availability of information. BCCI was cloaked in the secrecy laws of Luxembourg. But how much information do we possess about the balance sheets of the big four UK clearing banks let alone secondary institutions? If both the public and those concerned with prudential supervision are to ascertain the credit-worthiness of a bank, then detailed information about the structure of its assets and liabilities must be published on a frequent basis (say, quarterly). This would reveal the proportion of loans made to various classes of borrower.

However, for such information to be meaningful, there must be a revision of generally accepted accounting practices. The current method of book value accounting has merely covered up the deterioration in the quality of bank portfolios that has taken place over the past 15 years. In addition to book values, banks must report figures that reflect the fundamental economic value of their assets. This method is akin to marking to market but subtracts changes which are due to temporary fluctuations in asset values. Minimum bank capital requirements would then be based upon an estimate of this economic value and asset value volatility.

Undoubtedly, bank costs will rise as a result of more intensive monitoring. This will result in lower deposit and higher loan rates. This is the price of a more open and safer financial system. However, such costs should not rise by much. As part of effective management, banks should already be monitoring current and past performance of their activities. Hence, the information should already be there. If it is not, then there must be a serious overhaul of management practice.

The second problem arises from the *de facto* separation of prudential regulation from monetary policy formulation. Since the change in monetary policy regime in 1979, asset values have become more volatile. As a result, any bank (indeed, any investor) has run a higher risk of insolvency than in the period prior to 1979. This has meant that any systemic shock to the financial system, such as an unexpected and prolonged increase in interest rates, is going to lead to a deterioration in the quality of bank portfolios and hence an increased risk of widespread bank failure. Thus, while the prudential supervisory arms of central banks have been seeking to improve the safety of the international banking system, the monetary arms have been undermining it. Not only should those in charge of monetary policy and prudential regulation be forced to co-ordinate their medium-term and long-term strategies, but the stability of financial markets should join the list of central bank policy objectives, not just in the UK but worldwide.

George McKenzie,
department of economics,
University of Southampton

Why farmers oppose MacSharry CAP plans on a range of fronts

From Mr David Naish.

Sir, The Common Agricultural Policy must be reformed; on this at least we can agree with your July 12 editorial. But your highly-developed critical sense seems to have left you when considering Mr MacSharry's reform plan.

The objectives of a reformed CAP should be to:

- control budgetary costs;
- reduce surplus production;
- maintain the environment;
- ensure that Europe has a viable farming sector;
- enable a settlement to be reached at the Gatt.

The MacSharry plan falls down in all these areas. It would raise costs substantially; it would not cut production on the scale needed; it would reduce rather than improve the industry's competitiveness; and, while there are some concessions to a more environmental approach, it would harm the countryside.

The plan is highly unlikely to obtain a majority in the Council of Ministers and, by completely reversing the basis on which the EC has hitherto been negotiating in the Gatt, will hinder rather than improve the chances of a speedy settlement.

May I remind you that European farm organisations in May unanimously agreed counter proposals based on voluntary supply management which would meet the above objectives without requiring extra spending. They would also allow the EC to meet the kind of Gatt commitments likely to emerge from a successful conclusion to the current talks.

David Naish,
president,
National Farmers Union,
Agriculture House,
Knightsbridge, SW1

Assessing inflation can be an unfruitful exercise

From Mr Mark Brinkley.

Sir, The announcement that inflation had failed to fall ("Food price rises prevent further fall in inflation", July 13) because of high strawberry prices highlights the Alice-in-Wonderland characteristics of the Retail Prices Index.

Laws of supply and demand suggest that the demand for strawberries will fall when their price rises. So it is possible, even likely, that the average UK family has spent no more on strawberries this year than last; rather they have eaten less of them. It is equally unlikely that producers have netted a larger income. Rather, we have a good example of the free market allocating scarce resources by increasing prices; this is not inflationary.

Looking further through the pie chart of UK annual inflation as seen by our Central Statistical Office yet more strange figures are unveiled. Apparently, motoring expenditure has increased by 8.8 per cent in the last year, a year which has seen a 30 per cent drop in new car sales and showrooms slashing prices to attract customers. Clothing and footwear prices, we are told, have increased by 4.1 per cent – despite the continuous half price sales on the high streets – and the empty restaurants have increased their prices by 11.1 per cent. Just where does the CSO do its shopping? Is it not allowed to include special offers?

It is my perception that most sectors of the economy that actually operate under something approaching free market conditions have actually experienced deflation during the last 12 months in response to collapsing demand. The RPI model takes no account of changes in demand for goods and services and is therefore virtually useless as an indicator of price changes over the short term. Yet it is the most important yardstick of the government's economic policy. The White Queen would be most impressed.

Mark Brinkley,
10 Edward Street,
Cambridge

Fax service

LETTERS may be faxed on 071-873 5938. They should be clearly typed and not hand-written. Please set fax machine for fine resolution.

A rare opportunity for our leaders to lead

By Graham Allison and Grigory Yavlinsky

Perhaps the major consequence of the Group of Seven summit has already occurred. Gorbachev's coming has concentrated the minds of hundreds of officials at the top of G7 government on the single most important international question of 1991: what about the Soviet future? No less than in the aftermath of the second world war, the end of the cold war requires Soviet and western leaders to decide what kind of Soviet Union they will seek to reconstruct.

The contrast between this summit and last July's G7 meeting in Houston is instructive. There the issue of the Soviet Union was confined to an hour's discussion, dismissed in a paragraph of the communiqué, and then buried in a long-term study.

This year the Soviet question dominates the agenda. Differences aside, a consensus has emerged about how this issue should be approached. Specifically:

- The Soviet political and economic system requires not reform but transformation;
- While this fundamental choice must be made by Soviet leaders, the west now recognises its stake in the outcome and thus is inescapably involved;
- The process of co-operation must be step by step and strictly contingent upon Soviet actions, not promises;
- The solution is not a give-away, bail-out or bribe;
- The goal is the *integration* of the Soviet Union into the world economy, and the admission of the Soviet Union to the institutions of this society on the same terms as the other members.

As the leaders meet today, the Soviet Union stands at a fateful fork in the road. Six years of perestroika have sought to repair a failing command economy that is fatally flawed and cannot be saved. Down this path the current economic deterioration is likely to become a freefall. Economic collapse will fuel political disintegration that could easily turn violent, with all that would mean.

Alternatively, Soviet leaders have an opportunity to choose decisively the steep path up to the market economy. Whether Soviet leaders can muster the political will to make and sustain this journey, only they can say. But what the international community knows is that only an economic programme built on all the fundamentals of a market economy has any real chance of success.

At today's summit then, what may happen? In our view, there are three basic scenarios for the London meeting.

In the first, President Gorbachev presents a concrete programme for transforming the Soviet Union into a market economy and announces unambiguous first steps towards this goal. There may be initial dissent, but western leaders will engage, endorsing not only his objective, but his starting initiatives. A new "7 plus 1" will prepare a joint programme of actions to be taken not only by the Soviet Union, but by the west.

In a second scenario, Gorbachev presents a programme that is completely unacceptable. It will be met with uneasy silence. Western leaders will devise suitably ambiguous generalities behind which to hide their concerns. Whatever they say to Gorbachev privately, they will adjust their policies and support for Soviet reform to prepare for failure. In this scenario, there is some risk that the summit will not only be, but also look like, a failure. The possibility of this outcome is not great.

A third scenario is thus most likely. President Gorbachev brings to London a mixed bag: well-stated intentions, some appropriate actions, several steps backwards or sideways, and much abstraction. In effect, as he did last autumn when merging the 500-Day programme and the Ryzhkov plan, he will have sought to marry a hedgehog and a snake. In this case, western choices will be difficult and their consequences complex.

On the one hand, the west could publicly signal support for Gorbachev's programme, while privately concluding that failure is foreordained. Some in the west will feel confirmed in their view that Gorbachev is incapable of real economic reform. Others will be genuinely disappointed. But as realists, they will conclude that they should concentrate on consolidating gains in other areas in the time that Gorbachev remains in power. Western leaders are committed to supporting Gorbachev at almost any price – in words, not dollars – because of all he has done and is doing in international affairs. Thus, in any case they will announce a package of measures including special associate status in the International Monetary Fund, most favoured nation status in trade, technical assistance, and co-operation in several sectors such as energy and defence conversion. The list will be long in order to give the impression that the measures are weighty.

What signal will this send to Gorbachev and his colleagues – and to the many others in the Soviet Union seeking to find their way to the market economy? If leaders of the Seven fail to offer Gorbachev their candid views about what is required for successful economic transformation, they will do him a disservice. Moreover, their public statements will be watched with care in the Soviet Union. If they fail to distinguish between continuing down the current path, and a coherent programme for economic transformation, they will compound the general disorientation of the Soviet people.

A more constructive western response would begin by endorsing Gorbachev's goal of a Soviet market economy, applauding the steps he proposes that move in the right direction, but also pointing out the gap between his programme and what is required. Its operational content would be to initiate an IMF-led process for defining as rapidly as possible a coherent economic programme worthy of western investment. To give this process impetus, western leaders would announce their willingness to meet again with Gorbachev, perhaps joined by leaders of the republics in the new Union, as soon as he is prepared to present a credible plan.

While this outcome will certainly mean a loss of momentum, it might nonetheless provide a last chance for the constellation of political and economic forces to converge. It will certainly convey western willingness to go the extra mile. And the process itself could play a significant role in helping the Soviet leaders appreciate the necessity for a new voluntary Union committed to comprehensive economic transformation.

If some version of this final scenario transpires, those assessing the probable effects of summit decisions should watch carefully several indicators. Is the IMF-led activity just a study or the preparation of a programme of action? Does it have a short timetable, for example, with a scheduled review by G7 leaders in early autumn, or is it pushed off to next year? Who in the G7 governments is engaged in this process, specifically the sherpas? Does the programme focus exclusively on Soviet reform, or is it a joint programme in which western governments agree to think about the form of support that could improve the odds of success?

By the time of the G7 summit meeting in July 1992, the present window of opportunity for transforming the Soviet Union to a market economy and democracy may well have closed. Today, those who meet at the summit have a rare opportunity to lead.

Graham Allison is professor of government, Kennedy School of Government, Harvard University. Grigory Yavlinsky is former deputy prime minister of Russia. They are joint authors of the "Window of Opportunity" plan for the Soviet economy.

Edward Mortimer

The summit of the north

Meetings of world leaders are not a bad idea. But they could be better organised

FOREIGN AFFAIRS

Do I have to repeat myself? It was only after I had more or less made up my mind what to say about the Group of Seven summit that I looked in the cuttings book and found that I had already written it this time last year.

My complaint then was twofold. First, there had just been three summits in three weeks, with heavily overlapping membership – Nato, the European Community and G7. Second, Japan, being invited only to the last of the three, was expected to foot the bill for a new world order (no, I didn't actually use that phrase) which had been designed largely in its absence. To try to tidy things up I made four proposals:

- Merge Nato with the G7.
- Revive the UN as "the central global institution ... with the great powers giving a concerted lead through the Security Council". ("It may even become possible," I wrote, "to use joint military force, when necessary, to uphold international law and order." The date: July 24, 1990. Can that issue of the FT somehow have failed to reach Baghdad? Or did President Saddam Hussein think he could get away with it by acting before my suggestions were implemented?)
- Give Japan (and possibly also India and Brazil) permanent membership of the Security Council, but let the veto power be vested in the permanent members, or a majority of them, collectively rather than individually.
- Let the EC, or European Union, be represented by a single delegation in the Security Council, and in other international bodies.

Only the second of these proposals has so far been put into effect, thanks to Mr Saddam's timely intervention, and even there the performance suffered somewhat from the non-implementation of points three and four. Japan and Germany were both expected to pay for a UN strategy they had had no part in defining. Not surprisingly, they took time to agree to this, and their relations with their allies, especially the US, suffered unnecessary strain as a result. Also, the EC did not behave in the crisis as a cohesive unit, and the effectiveness of the European contribution was thereby reduced.

But on both these points, as well as point two, the Gulf experience has pushed world opinion in my direction. The UN, and especially the Security Council, are taken much more seriously now than they were ago, and improving the UN's performance, "as a world policeman" and in other respects, has figured prominently on the agenda of this week's G7 summit. Conventional wisdom still decrees that the time is not ripe for amendment of the UN Charter (necessary if the composition of the Security Council is to be modified), but the need to give Japan permanent membership at some point is generally conceded.

Meanwhile, one amendment which could be passed without difficulty, because it would have no practical effect, but which would be appreciated in Japan, would be the removal of the so-called "enemy clauses" (Articles 53 and 107), which allow special measures to be taken against an "enemy state", defined as "any state which during the second world war has been an enemy of any signatory of the present Charter". Since all the former Axis powers are now signatories, it could be argued that these clauses now refer to second world war belligerents on both sides. In reality they have long since become meaningless and should be deleted.

Britain and France have not yet offered to sign over their permanent membership to the European Union, but the idea that Europe should be represented collectively, and that this would be a better solution than having Germany as yet another permanent member, does seem to be gaining ground. One small practical step in that direction has been made with the lifting of the ban on discussion of Security Council business at European political co-operation meetings. Britain and France are beginning to act in the Security Council as *de facto* spokesmen of agreed EC positions.

Where there has been least progress is on my proposal to merge the G7 with Nato. If anything, as Mr Gorbachev elbows his way into the room, G7 is moving more in the direction of a merger with the Security Council, or at least of duplicating the revised permanent membership of the Security Council which I and others have suggested; and indeed one could argue that this is logical since G7, being a more recent invention than the UN, more accurately reflects in its composition the realities of power in the world today. In Franklin D. Roosevelt's original conception world order was to be based on close co-operation between from the great powers, and the five permanent members ("P5") are the states he expected to be great powers in the post-war world.

G7 is moving more in the direction of a merger with the Security Council, or at least of duplicating a proposed revised permanent membership of the Council

They still are, in the limited sense of being the only five "official" nuclear powers. But in the broader understanding of power, which takes into account the increasingly important economic dimension, it is clear that Japan and Germany belong at the top table, and that much of Europe's power is now wielded through the EC. Italy's G7 membership is an anomaly, reflecting its importance within the EC rather than in the world. So is Canada's. But it is argued (not only by Canadians) that Canada plays a useful role because, with its "open, medium-sized economy" it is "uniquely interested among the Seven in maintaining the multilateral institutions", and thus "effectively represents the smaller industrial economies".

It is somewhat in the same spirit that Brazil, India and Nigeria have been pushing their claims to permanent Security Council membership: they would "effectively represent" their respective continents. But that is actually the purpose of the non-permanent members, elected by the General Assembly for a two-year term, with due regard to "equitable geographical distribution". There is little, if any, evidence that smaller South American, Asian or African states wish to be permanently represented on the Security Council by the three countries named. Permanent membership should reflect power rather than size or geographical location. Non-permanent membership should, however, be more equitably distributed. This could be achieved by a recasting of the regional groups at the UN, which are not part of the Charter and which are now out of date. There is no longer any justification for dividing Europe into west and east.

Even so, it still seems to me the G7 has a function distinct from that of the P5. The latter are a directorate of great powers. It is desirable that they reach a consensus on matters of global import, but for the near future they are going to remain very different from each other. The G7, by contrast, is an alliance or caucus of essentially like-minded powers, the great industrial democracies, otherwise known as "the north". It is nice to think of the Soviet Union as a candidate member, but much too soon to take its membership for granted; and no-one even thinks of admitting China.

Merging G7 with Nato still looks a good idea to me. It's unlikely to happen formally, partly because the French have a rooted objection to any extension of Nato's role either functionally or geographically. But Nato could be regarded informally as the military arm of the G7, much as the western European Union is coming to be seen as the military arm of the EC. And the north does need an institution: not to confront the south, but to make up its collective mind about those many global issues on which not only its own citizens but also those of the south expect it to take the lead.

FINANCIAL TIMES
Wednesday July 17 1991

Rise in government borrowing criticised and budget cuts seen as 'package of tricks'

Bundesbank men warn of deficits risk

By David Marsh in Bonn

A STARK warning of the risks of rising German budget deficits and higher interest rates has come from two influential members of the Bundesbank's policy-making council.

Mr Reimut Jochimsen, president of the central bank of North Rhine-Westphalia state, and Mr Wilhelm Nölling, head of the Hamburg regional central bank, sharply criticised continued rapid expansion of government borrowing.

Mr Jochimsen and Mr Nölling, who are members of the opposition Social Democratic party (SPD), are not counted among the traditional monetary "hawks" on the Bundesbank council. Their adherence to the SPD, however, makes them more outspoken in their remarks about the Bonn government than other council members.

Mr Jochimsen said in an interview that last week's announcement of Bonn's budget cuts, aimed at reducing subsidies by DM11bn ($6bn) a year over the next three years, was a "package of tricks" full of "hot air".

The plan, put together by Mr Theo Waigel, the finance minister, has been attacked by MPs from the SPD for containing little in the way of new cuts and for failing to tackle the root causes of fast-growing budget deficits.

Speaking of the possibility of increases in the Bundesbank's discount and Lombard rates in coming months, Mr Jochimsen said: "I do not rule out that we will have to move interest rates higher."

Over the next few weeks, the Bundesbank would be examining the impact on the economy of the large tax increases which came into effect on July 1. It will also consider the outlook for interest rates in countries still hit by recession such as the US and Britain.

Last week's council meeting decided to keep discount and Lombard rates unchanged at 6.5 per cent and 9 per cent respectively but lowered the Bundesbank's money supply target for the second half of the year.

Significantly, two Bundesbank council members spoke in favour of increasing the discount rate – indicating that a groundswell of opinion is building up in favour of interest rate increases later in the year.

Mr Jochimsen said Germany had still not drawn the right financial and economic lessons from unification. High wage settlements and a lack of action on redrawing government spending priorities were contributing to growing imbalances.

He said Mr Waigel would have to find a replacement for the German Unity Fund, the DM115bn off-budget financial mechanism designed to channel money to east Germany. This is due to be phased out by 1994, a step which would put severe financing pressures on the slender resources of the east German states.

In separate remarks, Mr Nölling, a well-known critic of the terms of German monetary union last year, warned that overall public sector debt was likely to have doubled to around DM1,900bn between 1989 and 1993.

He complained that budgetary planning was still suffering from a "loss of reality". This was accompanied by the trend towards offloading financing into off-budget vehicles such as the Unity Fund, Mr Nölling said.

French inflation falls below German level

By George Graham in Paris

FRANCE'S inflation rate has moved below Germany's for the first time since 1973.

French consumer prices rose by 0.2 per cent last month, taking the inflation rate in the past 12 months to 3.3 per cent, compared with Germany's June rise of 0.5 per cent which produced an annual rate of 3.5 per cent.

Economists expect the French inflation rate to drop further while German inflation continues to accelerate under the impact of unification. According to the Organisation for Economic Co-operation and Development (OECD), the Paris-based grouping of industrialised nations, French inflation should reach 3 per cent next year, against 4 per cent in Germany.

Since 1945, France lived under a series of administered price control systems in which businessmen had to negotiate the price of everything from a haircut to a chocolate bar with the finance ministry.

These controls did little to curb French inflation, which climbed rapidly during the 1973-74 oil shock, stayed high in the mid-1970s while West German inflation decelerated, and then climbed again in the second oil shock of 1979-80.

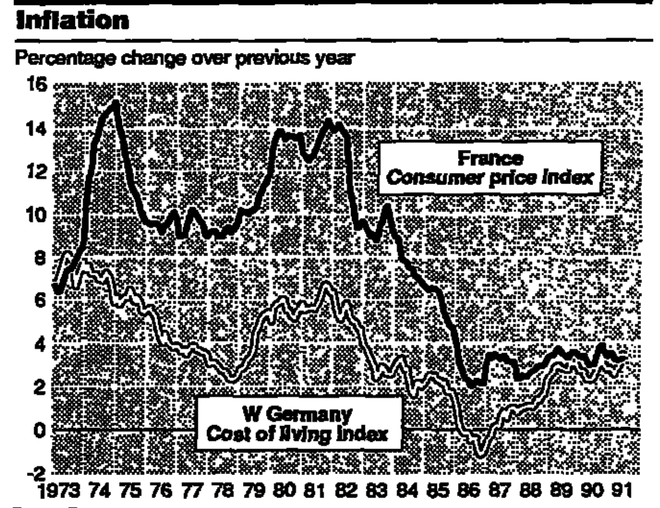
After an experiment with an expansionist economic policy after the 1981 election, France's socialist government quickly moved to toughen price controls and couple them with a wage freeze in 1982.

Mr Jacques Delors, finance minister from 1981 to 1984, and Mr Pierre Bérégovoy, his successor from 1984 to 1986 and from 1988 to the present, have since followed a policy of competitive disinflation, closely targeting France's inflation gap against Germany.

Mr Edouard Balladur, finance minister under the right-wing government of Mr Jacques Chirac, eventually abandoned price controls at the end of 1986.

Although financial markets have to a great extent accepted France's commitment to controlling inflation, French interest rates remain higher than Germany's, with 10-year French government bonds yielding around half a percentage point more than their German counterparts. However, yesterday's inflation figures open up the possibility of a cut in the Bank of France's money market intervention rates.

Inflation



Source: Datastream

Poland accused of cooking the debt books

Christopher Bobinski on an illicit buy-back programme with political implications

DETAILS of an illicit debt buy-back programme run by a Polish government agency have emerged just as Poland enters a critical phase of its discussions with western bankers over rescheduling its medium-term debt.

The secret buy-back operations undertaken by Fozz, an organisation set up by the previous Polish communist government to manage national debt, run counter to an agreement between Poland and its bankers.

Polish debt has at times dipped below 20 per cent of its nominal value on the informal telephone market by which banks buy and sell debts of lesser-developed countries. This means that Poland could buy its own debt at, say, 20c for every $1 owed to western banks, and so retire its foreign debt secretly without having to negotiate a debt reduction package.

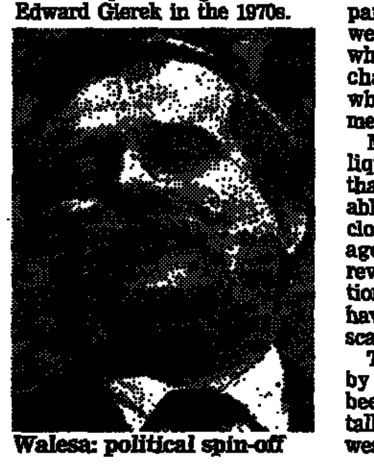
However, the country's western bankers had specifically forbidden it from buying back debt in this way. They are still engaged in discussions with the Poles over a debt-reduction package, and would not wish to see the country already obtaining an 80 per cent discount on its debts.

Discrepancies in Fozz's books have also raised fears of a substantial fraud related to the buy-back operations, and fuelled concern in Polish political circles about mounting corruption.

The scandal is being used as political ammunition in the struggle between President Lech Walesa and parliament and in the wider political contest under way before elections in October.

Revelations of Fozz's actions have come as a personal embarrassment to Mr Janusz Sawicki, a deputy finance minister and former chairman of the supervisory board of Fozz, who is now Poland's leading debt negotiator. Members of Fozz's board included Mr Grzegorz Wojtowicz, now head of the National Bank of Poland, the central bank.

Fozz was set up early in 1989 to monitor Poland's debts, administer funds set aside for debt servicing and to conduct debt-for-equity swaps. The agency took the Polish debt off the books of the Bank Handlowy, the country's largest foreign trade bank, which had formally been the borrower when the foreign debt was contracted by the regime of Mr Edward Gierek in the 1970s.


Walesa: political spin-off

Fozz was closed at the end of last year after concern about mounting chaos in its accounts, and Mr Grzegorz Zemek, who had been brought in to run it from the Polish-owned Bank Handlowy International in Luxembourg, was sacked.

Mr Zemek organised the buy-back operation, for which he used funds held by Polish companies abroad. These funds were transferred to middlemen who passed them on to merchant banks and companies which bought up Polish commercial debt.

Mr Jerzy Dzierzynski, Fozz's liquidator, reported in April that he was having considerable difficulty in drawing up a closing balance sheet for the agency. The discrepancies revealed are fuelling speculation that mismanagement may have led to fraud on a large scale.

The amount of debt shown by Fozz's accounts to have been bought back does not tally with figures provided by western banks which, according to Mr Dzierzynski, acted as Fozz's agents and now hold debt on its behalf.

Mr Sawicki has limited himself to assurances that the documentation of Poland's $44.9bn debt is in order. This was while responding to Polish press reports which suggested that, because of disarray in the Fozz accounts, the authorities had lost track of the debt situation.

Meanwhile, the Warsaw prosecutor's office has opened an investigation into possible fraud involving $375,000 and DM1.7m ($920,000). The UOP, Poland's reformed secret service, is conducting its own investigation.

Mr Jerzy Grohman, a minister in Mr Walesa's office, recently cited the buy-backs as evidence of mounting corruption.

He was speaking at a meeting of the Centre Agreement (PC) party which backs President Walesa and is using the corruption issue to help build a coalition capable of winning the October parliamentary elections.

Senate may delay Gates vote for 3 months

By Lionel Barber in Washington

THE US Senate intelligence committee – worried about the expanding criminal investigation into the Iran-Contra affair – is considering a delay of up to three months before voting on the nomination of Mr Robert Gates as CIA director.

A further delay in the confirmation hearings could kill the nomination, but both Republican and Democrat senators remain reluctant to vote until they are sure Mr Gates was not involved in an official cover-up of the scandal.

Evidence of a cover-up has grown after a senior CIA official pleaded guilty to withholding information from Congress about CIA involvement in the secret 1985-86 White House operation to arm the Nicaraguan Contra rebels.

The officer, Mr Alan Fiers, has agreed to co-operate with the criminal investigation. One important target is Mr Clair George, formerly head of the CIA's covert operations, who installed a previously unknown taping system which recorded conversations between agency operatives in Central America and the CIA's headquarters in Langley, Virginia.

Mr Gates does not appear to have been directly implicated in a cover-up, and President George Bush last week complained that his nominee is "twisting in the wind" – unable to defend himself against damaging allegations.

Senate Democrats and Republicans are examining the CIA's role in Iran-Contra and fresh disclosures that the agency used BCCI, the Abu-Dhabi-controlled bank which has was shut down last week amid allegations of illegal activities.

Administration officials said yesterday that they were pinning their hopes on the committee starting the confirmation hearings early next week and the Senate Intelligence committee was also meeting yesterday to decide on this proposal.

Opening the hearing this week would at least allow Mr Gates to testify under oath about his knowledge of the Iran-Contra affair and to answer other charges that he personally supervised a covert programme to ship arms to Iraq through South Africa and Chile.

The CIA again denied yesterday that such a covert programme existed.

Bank received BCCI fraud warning last October

Continued from Page 1

not alert the British Serious Fraud Office to its concerns about BCCI until it moved to close the bank 12 days ago.

The Bank of England said that it had received "two or three" reports from Price Waterhouse in 1990 after receiving the March document – an indication of the level of activity and concern that existed among banking regulators at the time.

It said that these reports pointed only to "very bad banking practice" at BCCI, rather than to outright fraud.

The October report prompted a full-scale investigation to pin down the full detail of the suspected fraud, in which Patton Boggs and Blow, and other international law firms and auditors, and regulators were involved.

The report also served as the foundation of the later Price Waterhouse report which sets out the fraud in detail. This was not delivered to the banking regulators until three weeks ago.

It was this later report, which has not been made public, which prompted the Bank of Enegland and other international financial regulators to shut down BCCI's worldwide operations.

In a separate disclosure, a former senior Federal Reserve official said the Bank of England allowed important original documents to leave London in 1990 when it organised the $1.2 billion recapitalisation of BCCI under an Abu Dhabi holding company.

Patton Boggs and Blow confirmed that documents were removed as part of the restructuring which caused BCCI to move its worldwide headquarters to Abu Dhabi.

UK probes Eurobond market

Continued from Page 1

two main areas of concern:

- Agreements among leading firms about an acceptable level of underwriting fees. While many firms admit there is a consensus on the "minimum level of renumeration" which can guarantee the participation of leading firms in a transaction, they said it falls short of a binding agreement.
- The fixed-price re-offer system of syndicating new bond issues, under which the lead firm in a bond issue sets the price – below the issue price – at which members of the syndicate can deal.

Only when the lead manager is satisfied that most of the bonds are in the firm hands of investors are the bonds allowed to find a free market price. Some firms have argued that the system is being imposed upon them.

If the OFT thinks such market practices are restrictive, it could ask firms to change the way new issues are made. If they refused, it could bring a case in Britain's Restrictive Practices Court.

WORLDWIDE WEATHER

		°C	°F			°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	S	27	81	Berlin	C	20	68	Caracas	C	29	84	Faro	S	30	86	Islamabad	F	37	99
Algiers	S	31	88	Biarritz	F	21	70	Casablanca		–	–	Florence	S	32	90	Istanbul	F	27	81
Amsterdam	F	17	63	Bombay	R	25	77	Chicago	S	19	66	Frankfurt	F	22	72	Jakarta	F	33	91
Athens	F	30	86	Bordeaux	C	25	77	Cologne	C	19	66	Geneva	S	27	81	Jersey	C	17	63
Bahrain	S	35	95	Boulogne	C	16	61	Copenhagen	F	19	66	Gibraltar	S	27	81	Johannesburg	S	15	59
Bangkok	C	32	90	Brussels	C	17	63	Corfu	S	32	90	Glasgow	C	16	61	Lima	C	20	68
Barcelona	S	27	81	Budapest	S	27	81	Dallas	S	24	75	Helsinki	F	19	66	Lisbon	S	33	91
Beirut		–	–	Buenos Aires	F	12	54	Dublin	F	18	64	Hong Kong	F	30	86	London	R	19	66
Belfast	C	16	61	Cairo	S	33	91	Dubrovnik	F	31	88	Innsbruck	S	25	77	Los Angeles	C	18	64
Belgrade	C	25	77	Cape Town	S	17	63	Edinburgh	C	17	63	Inverness	R	17	63	Luxembourg	C	19	66

		°C	°F			°C	°F			°C	°F			°C	°F			°C	°F
Madeira	S	24	75	Milan	S	27	81	Nicosia	S	27	81	Salzburg	S	25	77	Tenerife	S	27	81
Madrid	S	36	97	Montreal	S	19	66	Oporto	S	25	77	San Francisco	Dr	15	59	Tokyo	R	25	77
Majorca	S	29	84	Moscow	R	17	63	Oslo	F	21	70	Seoul	C	26	79	Toronto	S	20	68
Malaga	S	29	84	Munich	F	25	77	Paris	F	22	72	Singapore		–	–	Tunis	F	32	90
Malta	S	29	84	Nairobi	C	22	72	Peking	S	32	90	Stockholm	F	17	63	Valencia	S	30	86
Manchester	F	17	63	Naples	S	31	88	Prague	F	21	70	Strasbourg	F	24	75	Venice	S	27	81
Manila	F	33	91	Nassau	C	33	91	Reykjavik	C	13	55	Sydney	S	15	59	Vienna	F	26	79
Melbourne	C	11	52	New Delhi	C	29	84	Rhodes	S	29	84	Taipei	F	34	93	Warsaw	C	22	72
Mexico City	C	24	75	New York	S	24	75	Rio de Janeiro	C	20	68	Tangier	S	31	88	Washington	S	24	75
Miami	S	27	81	Nice	S	28	82	Rome	S	29	84	Tel Aviv	F	29	84	Zurich	S	24	75

Temperatures at midday yesterday C–Cloudy Dr–Drizzle F–Fair Fg–Fog H–Hail R–Rain S–Sunny Sl–Sleet Sn–Snow T–Thunder

THE LEX COLUMN

Maxwell's silver dollar

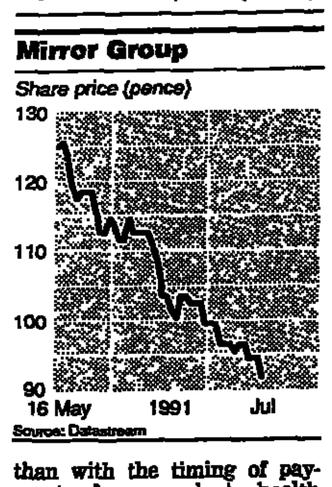
It is one of the depressing features of the Maxwell empire that every time its rickety finances seem finally to have been patched together it gives another lurch. Having recently tapped the Dutch for funds with the sale of Pergamon and the British with the Mirror flotation, Mr Maxwell is now turning to the Americans. There could be no clearer proof of urgency than the fact that in re-floating Maxwell Communication in the US, Mr Maxwell is prepared to break one of his most fundamental rules and relinquish majority control of the business.

Of course, it need not come to that. The preferred option is a simple demerger, the hope being that the business would be pushed to a higher multiple if US-domiciled. But the demerged US business would be virtually identical to the present group, whose free shares are almost half US-owned as it is. The next option would be a combined demerger and public offering, with Mr Maxwell selling down to under 50 per cent if this would put enough points on the multiple. The sad irony is that as a stumbling-block to investors, Mr Maxwell would be relinquishing formal control of the group already were it not for the mysterious defection of Mr Peter Walker.

The real question is why on earth the US investing public should come to Mr Maxwell's rescue. A glance at the performance of Mirror Group shares since flotation should be warning enough. If not, investors might reflect that on the basis of the latest accounts, Maxwell made pre-tax profits net of disposals and foreign exchange dealings last year of just £13m, while its tangible net asset value slipped from minus £1.2bn to minus £1.3bn. They might also recall that if it were not for Mr Maxwell as majority owner taking scrip dividends instead of cash, the company could scarcely afford dividends at all.

FT-SE Index: 2,556.8 (+24.3)

Mirror Group



Source: Datastream

UK economy

There is not much cheer in the latest PSBR figures, even if the June total of £1.4bn was rather less than the market expected. The figures are still distorted by the delays in poll tax collection, while the higher rate of VAT announced in the budget will not show through until August. True, central government spending has fallen compared with the same month of last year, but this appears to have less to do with the establishment of a trend than with the timing of payments, for example to health authorities and to local government. A better indication of the way the recession is still biting into government finances comes from Inland Revenue receipts and social security contributions, both well down on June last year.

The upshot is a picture of steady deterioration in which it remains hard to see the government meeting its target for the fiscal year as a whole of £7.9bn. The one consolation could be that privatisation receipts may yet be higher than forecast, especially if the stock market continues to scale new heights. But here the government risks shooting itself in the foot. With funding requirements now pressing, it can scarcely afford to see this autumn's British Telecom sale delayed by its dispute with the regulator.

ABN Amro

It takes some nerve to buy a US savings and loan institution these days, even if you are the world's 19th largest bank. ABN Amro's decision to spend $430m on Talman at least means it is deepening its retail deposit base in Chicago, where it is already well-established through its ownership of LaSalle National Bank. In theory, Talman's $4bn of savings deposits should help fund regional expansion by LaSalle as interstate banking barriers are broken down.

Still, Talman has negative net equity thanks partly to regulatory changes in treatment of goodwill. It has been looking for a buyer for some time. The Chicago area has been less heavily hit by recession than some other parts of the US and Talman has only a small exposure to commercial real estate. But it is still possible that additional capital may be needed over and above the $330m injection which is included in the purchase price.

Thus ABN Amro may yet end up paying dear for what is still an unorthodox way into the US banking market. Fortunately, its shareholders will not notice greatly. LaSalle is already well capitalised and will finance the Talman purchase locally through a preference share issue. The dilutive effect on its ultimate parent will be minimal. That could explain why the Amsterdam market barely reacted yesterday, marking ABN Amro up a paltry Fl 0.30 to Fl 38.10.

Mobile phones

The chaotic world of UK mobile phones seems finally to be settling into shape. Yesterday's news that two of the three PCN licensees – Cable & Wireless and Northern Telecom – are to join forces is bad news for Hutchison, which bought the third licence from British Aerospace only weeks ago. But since all the parties involved are robust enough to take care of themselves, the implications may be even worse for the existing cellular phone operators, who might otherwise have hoped that at least one of the three would drop out.

It could be worse news again if the new combination decides it can afford a more comprehensive network to compete with the cellular operators head on. The outlook for the market itself remains murky. But the more capital is pumped in, the less chance of a decent return all round.

Eurobonds

It is ironic that the eurobond issuing houses, which are a bastion of belief in free market principles, should have come under the scrutiny of the Office of Fair Trading. The fixed-price re-offer mechanism, whereby lead managers restrict the price at which other syndicate members can sell bonds, does smack of restrictive practice, but it has helped them return to profit for the first time in years.

That would be reversed by a return to the old days when weaker syndicate members dumped new issues into the market, forcing lead managers to support them at a loss. But none of the overpaid issue managers needs the OFT to tell them that this problem would not exist if they could learn to price new issues correctly in the first place.

FINANCIAL TIMES
COMPANIES & MARKETS

Wednesday July 17 1991

INSIDE

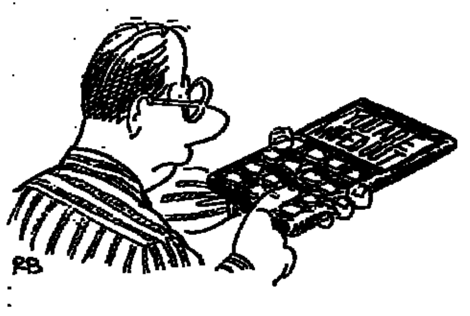
Banks unveil big falls in second quarter

Security Pacific and Wells Fargo, the two big California-based banking groups, yesterday turned in grim second-quarter results. Meanwhile, Citicorp revealed that it had earned $43m in the second quarter, down from $248m a year earlier. Security Pacific and Wells Fargo, Page 18

Fenner looks east

Despite the blows inflicted by recession, there is a quiet sense of excitement at the British engineering company, Fenner. The group has just taken a 70 per cent stake in Contimach, a Hong Kong-based group. The deal could ensure Fenner's continued world leadership in a market which it created 40 years ago. Andrew Baxter reports. Page 21

Change is on the cards



Fear of failure pursues Dale Lorenzen, chief of the Chicago Board of Trade's effort to develop a hand-held electronic trading card. So, in an effort to avert negative reactions from traders, the CBOT has decided to delay testing of prototypes until all the bugs are eliminated. Barbara Durr looks at the programme's prospects. Page 20

Metals shine for consumers

The balance of power in the metal markets has lurched heavily towards consumers this year. Prices of metals traded on the London Metal Exchange have fallen on average by about 10 per cent in the first half of 1991 while, in aggregate, base metal prices have not been so low since 1987. Kenneth Gooding reports. Page 30

A flaw in the Diamond

Diamond Star Motors, the US joint venture between Chrysler and Mitsubishi Motors was hailed as a "shining example" of US-Japanese co-operation when first agreed. However, recent criticism of Japanese carmakers by Chrysler chairman Lee Iacocca (left) has cast a shadow over the once-happy coupling. Now both companies are about to reorganise their shares of the US production venture. Robert Thomson reports. Page 17

Market Statistics

Companies in this issue

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
Douglas Hldg	807	+	11
Hochtief	1395	+	15
Kaufhof	497	+	5
Falls			
Didier-Werke	190.8	−	4.2
Mannheim Vers	810	−	6
Wella Pf	621	−	9
NEW YORK ($)			
Rises			
Chase Manhattan	20¼	+	⅜
Primerica	30⅞	+	1¼
Triton Oil	27¾	+	2¾
Falls			
Chemical Bank	25⅞	−	¾
Man. Hanover	28¾	−	⅝
Wells Fargo	74⅝	−	2
PARIS (FFr)			
Rises			
Damart	1999	+	44
From C et Auv	2200	+	50
Gal. Lafayette	1620	+	70
Skis Rossignol	640	+	26
Falls			
Localnace	461	−	20
Pizault	285	−	10
TOKYO (Yen)			
Rises			
Gunze Sangyo	874	+	100
Kinsho-Mataichi	770	+	92
Nagara Const	1270	+	200
Showa Mining	512	+	47
Teikoku Tsushin	1140	+	140
Uekigumi	1030	+	100

New York prices as at 12.30

LONDON (Pence)			
Rises			
Argos	321	+	9
BTR	402	+	10
British Gas	262½	+	6½
Colefax Fwlr	59	+	6
Delta	383	+	10
Glynwed	218	+	6
Guinness	987	+	14
Racal Telecom	361	+	11
Rank Organ	657	+	17
Scot & Newc	415	+	11
Triplex Lloyd	118	+	5
Wellcome	739	+	18
Falls			
ASDA	93½	−	3½
Albrighton	19	−	9
Golden Vale	55	−	8
Maxwell Commn	190	−	6
Nobo	113	−	7
Rosehaugh	33	−	5
TV-am	135	−	17
Wood (John D)	63	−	8

ABN Amro to buy US savings bank

By Ronald van de Krol in Amsterdam

ABN Amro, the Netherlands' largest bank, is to acquire Talman Federal Savings & Loan of Chicago.

The acquisition will nearly double the size of ABN Amro's operations in the state of Illinois and make the Dutch bank one of the largest foreign financial institutions in the US.

The $430m transaction consists of a $100m agreed bid for Talman shares and a $330m capital injection to strengthen Talman's capital ratios.

The purchase is expected to take effect in early 1992, following approval by Talman shareholders and regulatory authorities in the US and the Netherlands.

Talman, the largest savings bank in Illinois, has 45 offices in and around Chicago. Its assets of $6bn include about $4bn in saving deposits.

ABN Amro, making its first big acquisition since it was formed in August 1990 out of the merger between ABN Bank and Amro Bank, already has a presence in Illinois through its subsidiary LaSalle National, which has assets of $7.4bn.

LaSalle has grown rapidly since acquiring Lane Financial and Exchange Bancorp, both of Chicago, in the late 1980s. It is active mainly in lending to medium-sized businesses.

Talman will substantially strengthen ABN Amro's position on the Illinois retail market.

In spite of the wide-scale collapse of the US savings and loans industry, ABN Amro was at pains yesterday to emphasise that Talman was a "healthy, conservatively-managed savings and loan bank".

The resulting goodwill payments, combined with stiffer solvency norms, had forced Talman to look for a buyer willing to strengthen its shareholders' equity.

ABN Amro said it would not be issuing any new shares as part of the transaction but added that some of the financing would be generated by an issue of LaSalle preference shares.

Two weeks ago ABN took full control of European American Bank, which has 88 offices in New York City and Long Island, by buying an outstanding 33.7 per cent stake from two European partners for an undisclosed price.

Bank's expansionist mood, Page 16; Lex, Page 14

Robert Maxwell is to demerge and float the US interests of his media corporation to reduce debt

Publisher turns over a chapter

By Raymond Snoddy

MAXWELL Communication Corporation plans to demerge its US interests including Macmillan the publishers – businesses that account for more than 70 per cent of MCC's assets.

The latest change of strategy at Mr Robert Maxwell's main quoted company is designed to "enhance shareholder value" and reduce the debt taken on to buy Macmillan and Official Airline Guides.

Under the strategy, in which Maxwell's ambitions to be a media player on a global scale will give way to more limited regional ambitions, the American interests will be separately floated in the US.

The details have not been decided but it is likely that MCC shareholders will be offered a mixture of cash and a stake in the new US company, in addition to their share of the remainder of MCC.

The new strategy for the company was put together by Mr Kevin Maxwell, who took over as chief executive of MCC yesterday, and Mr Peter Walker, the former Welsh secretary who was due to become MCC chairman this month.

Yesterday Mr Walker said he had doubts about becoming chairman after visiting the US operating companies and realising they should be run from New York. "The idea of sitting in a head office in Holborn is crazy," said Mr Walker. "The American company should be owned by American institutions and managed by Americans with an American president."

After the demerger, MCC will become a company with annual sales of around £800m. Mr Walker said that what would be left in the UK "wasn't a company that I would wish to be chairman of".

Money would be raised through the new strategy because it is hoped that US institutions will place a higher price/earnings ratio on the US publishing ventures than the City of London did. Mr Robert Maxwell, who will remain chairman of MCC at least until demerger is complete, probably by the spring, yesterday said he did not rule out selling a majority stake in the US company and it would be up to his son Kevin to decide how much to keep of MCC.

Mr Kevin Maxwell explained yesterday that after demerger, MCC's main interests would consist of consumer and business magazines, Macdonald, the publishers, and Panini, the Italian producer of stickers.

"I want to get back to being a publisher not just a debt manager," said Mr Kevin Maxwell, who added that the decision had been prompted by the restrictions placed on the company by its low rating in London.

Mr Robert Maxwell said that a critical analysts' circular from UBS Phillips & Drew on the recently floated Mirror Group Newspapers had been "the last straw". In the US, Mr Maxwell said "these properties are valued according to what they can earn".

The continuing chairman of MCC added yesterday that before he retired he wanted to take the debt in the Maxwell companies down to the level of normal capital requirements and to get "best value for shareholders".

Throughout his career Mr Maxwell has made several changes of strategy. At one stage he was interested in getting into international electronic media but then pulled out his television stakes in Central Independent Television and TF1 in France. At the time of his purchase of Macmillan in 1988, Mr Maxwell also decided to withdraw from printing to concentrate on publishing. He surprised the industry again earlier this year when he decided to sell Pergamon Press, the heart of his original empire, to Elsevier, the Dutch publishers, in a deal worth £440m ($726m).

As the picture changed again yesterday, Mr Robert Maxwell insisted that control of at least one of his companies – Mirror Group Newspapers – was not for sale. Mr Maxwell, the multimillionaire socialist, wants to ensure that the Daily Mirror continues to support Labour.

Lex, Page 24

Where the money came from

By Maggie Urry in London

DETAILS in the annual report of Maxwell Communication Corporation, posted to shareholders last night, suggest the group's financial position is not as healthy as it first appears.

Within pre-tax profits of £145.5m ($232.8m) recorded for the year to March 31 (£172.3m in 1989-90), £132.6m come from one-off or unspecified items, or from operations outside the core publishing business.

These items include an £80.7m foreign exchange gain; £23.3m from property development; £8.4m of "other operating income"; £2.1m from the sale of publishing titles and £18.1m from the sale of investments.

Without these, the group's post-interest profits would fall to a mere £12.9m. This means that pre-interest profits from on-going operations are only thinly covering the cost of servicing the group's debt. Interest charges, net of interest receivable and investment income, have risen sharply from £131.6m to £153.5m, despite a reduction over the year in the group's debt.

By the year-end, debt stood at £1.75bn, down from £2.10bn a year earlier, £93.1m of the fall coming from beneficial exchange rate movements. The accounts say that more than 90 per cent of the debt is at fixed or capped interest rates, with the average maximum rate around 9.5 per cent.

Since the year-end, the group has raised further cash through disposals, notably the sale for £446m of Pergamon Press to Elsevier, the Dutch publishing group. Further disposals are needed to cut the group's debt – a probable motive for the demerger proposals announced yesterday.

The group's capital and reserves stood at £1.12bn at the year-end. The company aims to bring debt down to that level. However, excluding MCC's intangible assets of £2.07bn and the group's half share of the £684.2m of intangible assets in its Macmillan/McGraw-Hill joint venture, its net worth is negative to the tune of £1.29bn.

The cashflow statement shows that almost half the £540.4m generated from operations came from asset sales, with almost another quarter coming from a squeeze on working capital.

Black and Packer join forces in bid for Fairfax

By Emilia Tagaza in Canberra

MR CONRAD Black, Canadian proprietor of the UK Daily Telegraph group, has joined Mr Kerry Packer in a consortium to bid for John Fairfax, the failed Australian media group.

Fairfax, which publishes the Sydney Morning Herald, The Melbourne Age and the Australian Financial Review, was put into receivership in December with debts of A$1.7bn (US$1.29bn).

The consortium, named Tourang, includes Mr Packer's Australian Consolidated Press, Australia's biggest magazine publisher, and the US investment house Hellman & Friedman. The bid values Fairfax at between A$1.1bn and A$1.2bn.

Fairfax called in the receivers after banks led by ANZ and Citibank decided the group had no hope of servicing debts of A$1.1bn.

The bank loans, together with an overdraft facility of A$100m and US junk bond commitments of US$450m, were the residue of A$2.1bn raised in 1987 by Mr Warwick Fairfax, then 26 years old, to wrest control of the group from members of his family.

If the bid succeeds, the junk bonds would be swapped into debentures in the consortium. Most holders of these bonds have agreed to then drop lawsuits against Fairfax and its bankers.

Tourang joins other groups interested in Fairfax.

Jamison Equity, 32.7 per cent owned by the Monaco and London-based ASP Group, has the support of key Australian institutions, including the AMP Society, National Mutual and Bankers Trust Australia.

Another consortium is Independent Newspapers, led by Mr Tony O'Reilly, Irish chief executive of the US-based Heinz food group. He was recently joined by Mr John B. Fairfax, a member of one of the Fairfax family branches.

Pearson, publisher of the Financial Times, which expressed initial interest said yesterday it remained interested in business and financial publishing.

The *Black/Packer* consortium's bid raises new questions about the level of foreign ownership of Australian newspapers and the degree of media concentration in local hands.

There is a 15 per cent limit on foreign holdings in Australian media groups, but in the Fairfax case, the Labor government has indicated it might allow 30 per cent.

Tourang said it would seek approval from the Foreign Investment Review Board for the Daily Telegraph shareholding.

Mr Black's advisers, Sydney stockbrokers Ord Minnett, said total foreign shareholdings in Tourang would not exceed 30 per cent. It is believed Mr Black is interested in 20 per cent.

ACP would be limited to a 15 per cent stake in Tourang to abide by media cross-ownership rules prohibiting broadcasting licencees from owning major daily newspapers in the same city.

Brent Walker debt deal in balance

By Maggie Urry in London

THREE banks owed a total of just £1m ($1.6m) by Brent Walker, the troubled UK leisure group, could force the company into receivership.

One banker involved in plans to finalise a financial restructuring with the group's 47 banks, said: "We have reached a very critical and difficult phase. We are within days of saying unless we bring these three on board, the rescue will have to be abandoned."

Two of the banks which have not yet approved the restructuring are Japanese and one is based in continental Europe.

However, others involved in the refinancing were more optimistic about the prospects for approval, despite admitting: "We are by no means home and dry."

Unanimous agreement is necessary and, as the group is technically insolvent, one bank categorically refusing to agree could bring the company down.

Pressure is being put on the three banks and the Bank of England is also believed to be involved in trying to persuade them to approve the deal. "Everyone is having a final try in the next few days," said one banker.

However, the Japanese banks might benefit under the country's tax rules if Brent Walker goes into receivership.

As for the third institution, one banker pointed the finger at Dresdner Bank of Germany. An official at Dresdner said yesterday that the bank had made its decision, but declined to comment further.

A similar situation arose in the $8.2bn (£5bn) refinancing of Mr Rupert Murdoch's News Corporation, the publishing group, where the last few banks had small exposures but were slow to agree. Dresdner Bank was one of the last to sign up.

Brent Walker owes £970m to the syndicate of 47 banks. Brent Walker also owes £350m to another smaller group of banks.

Brent Walker court appeal, Page 22

UK mobile phone groups forge link

By Hugo Dixon in London

MERCURY Personal Communications and Unitel, two of the UK's new mobile communications companies, have agreed to a partial merger of their operations in a move which could save them about £400m ($243m) each in infrastructure investment over the next decade.

The companies have formed a joint venture to build, operate and maintain a mobile communications network, but they still intend to compete with each other and the rest of the telecommunications industry in providing services to customers.

Mercury Personal Communications, Unitel and Hutchison Telecom of Hong Kong have been awarded licences in the UK to provide personal communications networks (PCNs), which are intended to compete with cellular networks run by Racal Telecom and Cellnet and with BT's fixed network.

In a parallel development, Cable and Wireless, the UK-based international telecommunications group, has bought from Motorola, the US electronics group, the 40 per cent share of Mercury Personal Communications it did not already own.

These moves are the latest in a whirlwind of activity in the UK mobile communications industry. Hutchison Telecom of Hong Kong bought Microtel, the third PCN operator, from British Aerospace early this month, while Racal Telecom is due to be demerged from its parent Racal Electronics.

Mercury Personal Communications and Unitel – which is equally owned by US West, Thorn-EMI of the UK and Canada's Northern Telecom – were originally planning to spend about £1bn each on building networks. They now expect to spend about £600m each, with approximately half of that being channelled through the joint venture.

There will be only one physical network but Mercury Personal Communications and Unitel will continue to compete in seeking out and serving customers. They will also decide their pricing strategies separately, provide different packages of services, have their own billing systems and promote different handsets.

Mr Peter van Cuylenberg, Mercury Personal Communications chairman, said the joint venture would also allow the network to be rolled out more quickly. He said 80 per cent of the population might be covered by 1995.

Lex, Page 14

Montedison unit in Japanese deal

HIMONT, the US chemicals subsidiary of Italy's Montedison group, has signed an agreement with Mitsubishi Gas Chemical (MGC) of Japan to set up a joint venture to produce and sell innovative engineering plastics. The market is worth some $10bn a year, according to Montedison, writes Haig Simonian.

The companies have agreed to build a US plant to produce 20,000 tonnes a year of polyphenylene ether (PPE) resins.

Himont is owned by Montedison's Montecatini chemicals subsidiary, the world's leading maker of polypropylene.

Pelège bows out of SAE battle

By George Graham in Paris

MR MICHEL Pelège, the Parisian property developer, has acknowledged defeat in the battle to control of Société Auxiliaire d'Entreprise (SAE), the construction company.

Mr Pelège yesterday sold three-quarters of the 33 per cent stake he had built up in SAE for FFr1.19bn ($196m), most of it to Crédit Lyonnais, his principal banking ally, and to Paribas, the investment bank which has been leading the defence for SAE's existing management.

The sale is expected to leave Mr Pelège with a modest loss on the operation. The shares were sold at FFr1,200 compared with an average acquisition price estimated at FFr1,200 to FFr1,250. It will, however, relieve him from the heavy debt burden that pushed his company to a net loss of FFr37m last year.

The deal provides for Crédit Lyonnais to buy 14 per cent of SAE, while Paribas will increase its stake from 2.5 per cent to 10 per cent. Société Générale, Société Mutuelle d'Assurances and Comptoir des Entrepreneurs will each take an extra 1 per cent bloc.

Pelège said talks were under way on the sale of its remaining 8.5 per cent stake.

The Pelège attack on SAE began in 1990 when the property developer bought a 14.7 per cent stake from CGIP, the Wendel family holding company. After building this stake up to 23 per cent through market purchases, he demanded a majority of SAE board seats.

The deal is the latest setback to the established French tradition of seeking to take control of a company without being willing or able to pay for a full majority.

Move signals ABN's expansionist mood

ABN AMRO's proposed takeover of Talman Federal, the largest savings and loan institution in Illinois, is not the big, international acquisition which analysts have been expecting since the big Dutch bank was created out of a merger 11 months ago, writes Ronald van de Krol.

However, the move is important because it signals that ABN Amro is earnest about expanding abroad and is ready to take definite steps in that direction.

Although it has struck two deals in the US in July alone – on July 2 it acquired the remaining 33.7 per cent stake in European American Bank (EAB) of New York – ABN Amro has yet to act on its European ambitions.

This raises the prospect that, when and if the big acquisition comes, it may come a lot closer to home than Chicago or New York.

The Talman deal leaves ABN Amro with ample funds to put its strategy of becoming a "global player" into place. When ABN Bank and Amro Bank merged in the summer of 1990, the new bank immediately made a Fl 1.3bn ($650m) issue of preference shares.

The proceeds, which can easily be supplemented by the bank's existing funds, were clearly earmarked for international growth, with the US and Europe cited as the main outlets for the bank's desire for expansion.

The bank has been coy about its European intentions, but analysts believe it may want to enlarge its presence in Germany and France in particular. However, prices commanded by European banks are high, making the US an easier hunting ground.

Talman fits in nicely with the strategy pursued by the former ABN Bank of concentrating its efforts on Chicago. Amro Bank was traditionally stronger in New York, thanks to its involvement in EAB. ABN Amro's acquisition of Talman will further strengthen the bank's unusual "bi-regional" position in the US.

Like other Dutch banks, ABN Amro prides itself on its conservatism, especially compared with the brashness of US banking. Its decision to make a foray into the US savings and loan market was not taken lightly.

An ABN Amro spokesman yesterday disclosed that the bank had been close to agreeing a deal with Talman two weeks ago, but the agreement fell apart when another, unidentified, party stepped in and offered more.

ABN Amro withdrew, refusing to take part in an auction for Talman, but was later re-approached when the rival bid unravelled. The message which ABN Amro is seeking to convey is that it was prepared to pay a fair price for Talman – but no more – in keeping with the traditional sobriety of Dutch banking.

Lex, Page 14

Sandoz sales advance 2% after weak first quarter

By William Dullforce in Geneva

SANDOZ, the Swiss chemicals and pharmaceuticals group, has disclosed a 2 per cent increase to SFr6.9bn ($4.45bn) in first-half consolidated sales compared with the first six months of 1990. In local currencies, turnover had increased by 6 per cent.

The announcement yesterday indicates a recovery from the first quarter when Sandoz reported a slide of 2.5 per cent in sales.

Mr Marc Moret, chairman, declined to forecast earnings for the year, but the company said it expected to achieve a "satisfactory result" for 1991 as a whole, provided that early indications of international economic recovery were confirmed.

Economic slowdown in the US and several European countries had a negative impact on the group's chemicals business, where sales slipped by 3 per cent to SFr1.2bn.

The recession also had a negative impact on its agro-chemicals operation, which saw turnover drop by 6 per cent to SFr759m.

On the other hand, pharmaceuticals successfully weathered the effect of a strong Swiss franc, recording a 5 per cent rise in turnover to just over SFr3bn. Sandoz said new products had contributed significantly to the increase in sales.

Better performances were also recorded by seeds, nutrition and construction.

Sandoz's first-half sales performance, however, lags behind that of Roche, the third largest Swiss chemicals and pharmaceuticals group, which last week reported a 13 per cent improvement to SFr5.54bn. This was equivalent to a 17 per cent increase in local currencies.

Turnover in Roche's pharmaceuticals business advanced by 18 per cent to SFr2.84bn while its vitamins and fine chemicals division recorded a 10 per cent increase to SFr1.32bn.

Roche also said that, with reservations for extraordinary developments, it expected a further rise in earnings this year.

Contract with Baghdad puts Danieli on defensive

Haig Simonian reports on how a controversial deal may have affected the results of an Italian heavy engineering group

LISTENING to Mrs Cecilia Danieli, managing director of the eponymous Italian heavy engineering group, it would seem that her decision to invest in a new national newspaper stemmed more from disappointment at the company's treatment in the media than from traditional investment criteria.

Mrs Danieli, who runs the group with her associate, Mr Gianpietro Benedetti, still finds it difficult to explain why Danieli, one of the world's biggest makers of mini-steel mills, took such a beating in the media as a result of its contracts to sell steel-making equipment to Iraq in 1989.

Shipments for the DM750m ($418.9m) Iraqi deal were frozen last August, the month before they were to commence, following the trade embargo imposed after the invasion of Kuwait by Iraq, a first-time customer for Danieli.

According to Mrs Danieli, the contract was just one of a stream of infrastructure orders won by business-hungry western contractors looking for opportunities in the aftermath of the Iran-Iraq war.

However, after the invasion of Kuwait, Danieli found itself under the microscope. While the general press examined, and sometimes misrepresented, the contents of the deal, financial specialists concentrated on the damage it would do to Danieli's earnings, she recalls.

Mrs Danieli still criticises analysts' concentration on the company's turnkey contracts, such as those to Iraq and the Soviet Union, instead of on the dozens of smaller, but more stable, orders for steel-making "mini-mills" which are bread and butter for Danieli.

"It is a wrong impression, as it ignores our presence in developed countries," she says. "Our business in the US is hardly ever mentioned," despite the fact that some 70 to 80 per cent of orders for mini-mills have come from US customers in the past five to six years. "People tend to concentrate on a $200m order from the USSR rather than the $20m deal from Bethlehem Steel."

For while the huge turnkey orders are cyclical, those for smaller Danieli products are much more stable. And, contrary to popular belief, not all the group's customers are third world countries wanting to build a steel industry on the cheap, she asserts.

Despite Mrs Danieli's efforts, the Iraqi order will overshadow the company's results for the 1990-91 financial year, ending on June 30, which will be released in late October. Net earnings will be below the L61.5bn ($46.2m) made in 1989-90, although still at an "acceptable" level, according to Mrs Danieli.

Mrs Danieli explains why the loss of the Iraqi order has caused less damage to earnings than expected. Much, although not all, of the contract was covered by SACE, the Italian export credits guarantee agency. And large parts were passed on to sub-contractors, limiting the impact on Danieli itself.

Moreover, only some parts of the order were made to specification, meaning that other pieces of equipment in less advanced stages of preparation can be sold to other customers, Mrs Danieli explains.

The company has also yet to determine whether it will absorb the full impact of the lost Iraqi deal in its 1990-91 accounts or spread it over a longer period, she says.

However, resolution of the Iraqi problem will not immediately switch the critical spotlight away from Danieli. While the Middle East accounts for around 17 per cent of current orders, which amount to around L900bn, the Soviet Union is another important, but increasingly troubled, customer.

Mrs Danieli is cautious when it comes to the impact of Moscow's financial problems on the company's profitability. While some western suppliers have complained of severe payments delays, she plays down the impact of Moscow's current financial problems.

"For years, payments from the Soviet Union had been perfect. Now they're a bit more complicated. We haven't had defaults, but it takes a few months." Obviously, slower payments will affect Danieli's cash flow. "But we mustn't forget most of the rest of the world is already like this," she suggests.

It is to protect itself against such volatility, to which Danieli's is "traditionally subject", that the group maintains high cash balances, earnings from which account for nearly half of net profits.

Mrs Danieli defends the policy, despite local criticisms that the company should invest in the core business instead. Since floating 34 per cent of its ordinary shares in 1984, the group has felt it necessary to present a smoother earnings stream for outside investors, she argues.

Most of the company's cash is in short-term deposits, notably Eurolire, but also dollars, D-Marks and Ecus. The emphasis is on liquidity. "The important thing for us is to be able to say tomorrow, OK, let's use the funds", she says.

The fact that raw figures in the capital goods industry can be deceptive is an additional argument Mrs Danieli uses to justify the policy. One big turnkey contract can create a one-off surge in turnover. However, the fact that margins on such deals are traditionally lower than on orders for individual pieces of equipment means that earnings will not rise in proportion.

Moreover, Danieli's profits are also linked to the overall state of the steel industry. Mrs Danieli admits "it will be difficult" to repeat the boom years of the 1980s, when the group grew dramatically.

However, the present downturn in steel is not as bad as it looks for capital goods producers, she argues. "There is a certain link, but not as direct or as immediate as you would expect."

INTERNATIONAL COMPANIES AND FINANCE

Chrysler and Mitsubishi Motors close to fresh deal

By Robert Thomson in Tokyo

CHRYSLER Corp, of the US, and Mitsubishi Motors, the Japanese carmaker, are close to agreement on a reorganisation of their equally-owned US production venture, Diamond Star Motors. The Japanese company is likely to lift its stake.

Mitsubishi Motors said reports that Chrysler would sell its entire 50 per cent stake in Diamond Star were premature. However, the Japanese company indicated that the negotiations were in the final stage and it was likely to take a larger share of the venture.

Diamond Star was formed in October 1985 and is based in Normal, Illinois, where the company believes it has facilities capable of producing 240,000 cars annually. Although the original agreement was hailed as a "shining example" of US-Japanese co-operation, Mitsubishi has recently been irritated by criticism of Japanese carmakers by Mr Lee Iacocca, Chrysler's chairman.

Diamond Star produces cars such as the Mitsubishi Eclipse sports coupe and the Eagle Summit sedan. Mitsubishi Motors has been concerned that Chrysler would not be able to meet its share of the estimated $600m cost of developing new vehicles in the next few years.

At the same time, the financially-stretched Chrysler has been contemplating the sale of some, or all, of its 10.2 per cent stake in Mitsubishi Motors. Rumours of an imminent sale of the shares have circulated for several months on the Tokyo Stock Exchange, although Chrysler has said only that a sale is under consideration.

TNT shares hit low over European operations

By Mark Westfield in Sydney

SHARES in TNT, the Australian transport group, fell to an all-time low of 73 cents yesterday. The fall was in response to an apparent lack of progress on a long-awaited joint venture involving TNT's loss-making European air freight business.

TNT recovered slightly to 75 cents before the close in Australia, to finish 3 cents down on the day on turnover of 1.9m shares. This is level with its previous low on January 17.

The stock has lost a net 11 cents since Friday, the day after it was downgraded to B+ from BBB- by the credit agency Australian Ratings.

Australian Ratings reported that TNT had accumulated funding deficiencies of A$675m (US$515.2m) over the past four years. These had contributed to a "highly-leveraged capital structure". The agency expected an operating cash-flow deficiency for the year to June 30 of about A$150m.

TNT's rating will be set at B- in October, when Australian Ratings adopts the system of its parent, Standard & Poor's.

Four of Australia's largest broking houses, BZW, County NatWest, Ord Minnett and Macquarie Equities, sold the stock on behalf of clients yesterday.

There has been speculation in the market that TNT would make an announcement regarding the sale of a half-share of its European air freight business to a consortium of European post offices.

Fletcher Challenge buys Chilean plant

By Terry Hall in Wellington

FLETCHER Challenge, the New Zealand forestry and resources group, said yesterday it had become the world's biggest producer of chemical grade methanol following the purchase of a Chilean plant, Cape Horn Methanol, for US$90m (NZ$160m).

Fletcher's Chilean move had been expected by the market for some days, and had driven its share price down. However, it recovered late yesterday on word that the purchase would not damage Fletcher's balance sheet gearings.

In an unrelated move, Fletcher said it was also buying Brierley Investments' controlling stake in New Zealand energy company Southern Petroleum NL for NZ$52.2m.

BIL's decision to sell was surprising as the company had been expected to be a long-term player in the New Zealand energy scene. However, the New Zealand-based investment and trading company said it did not wish to commit itself to the large exploration costs for Southern.

Fletcher is buying the 90 per cent interest in Cape Horn Methanol of Chile from the Henley Group of the US for US$45m in cash and 20.87m new shares in Fletcher. The remaining 10 per cent will be held by the International Finance Corporation.

The Cape Horn plant was built in 1988 near Punta Arenas in southern Chile, and Fletcher said yesterday it was an efficient and profitable producer of methanol.

Coupled with Fletcher's output from the Petralgas and Synfuel plants in Taranaki, New Zealand, the plants will have a combined output of 1.8m tonnes a year.

Mr Michael Andrews, head of Fletcher's energy and resources group, said Cape Horn Methanol had a stable customer base that included exports to Japan, Europe and North and South America.

The company also had a gas contract with a state-owned petroleum company which expired in 2008. The plant had a deep-water port, produced 854,000 tonnes, and required no capital spending at its present level of output.

Mr Andrews said methanol had strong prospects over the next three years, with growth potential in traditional markets where it is used for formaldehyde, ascetic acid and related substances. He said demand was also growing for methanol's use in the fuel additive MTBE, used to reduce lead and volatility in gasoline.

The purchase will not interfere with Fletcher's aim of reducing its debt-to-equity ratio. A ratio of 55:45 had been achieved by the June 30 balance sheet date, and a target of 50:50 had been set as a goal for the next financial year, the company said yesterday.

Fletcher said it had developed substantial knowledge about Chile since its first venture there in 1983, and was now involved in forestry and newspaper print investments in the country. It also owned 60,000 hectares of forestry plantings and a newsprint mill.

The purchase of Southern Petroleum was a sensible rationalisation since Fletcher's subsidiary Petrocorp was already the leading operator in all fields where Southern held interests, the company said.

BIL is selling 71.5 per cent of Southern's ordinary capital, totalling 107m shares, for 49 cents a share, as well as 75m November options.

Petrocorp is to increase its oil reserves by 3.8m barrels and its gas reserves by 21 petajoules.

Southern's hydrocarbon deposits include 22.6 per cent of the Waihapa oil field and Ahuroa and Tariki gas fields, and a small stake in the Kaimiro gas field.

US steelmaker's outlook gloomy for third quarter

By Our Financial Staff

WHEELING-Pittsburgh, the ninth largest US integrated steelmaker only recently out of Chapter 11 bankruptcy protection after nearly six years, said it expects its third-quarter financial results to decline from second-quarter levels.

The forecast followed news that second-quarter profits totalled $2.02m, or 10 cents a share, on sales of $254.1m. In the same period last year, net profit totalled $36.4m on sales of $287.1m.

Per-share results are not comparable due to the issue of new shares under the company's reorganisation.

First-half net profits totalled $3.48m, or 18 cents a share, on sales of $477.6m. Last year's first-half profit was $61.4m on sales of $543.9m.

AMP confirms its role in Australian bank flotation

By Mark Westfield

AUSTRALIA'S largest institution, the Australian Mutual Provident Society (AMP), ended several days of speculation yesterday by confirming it would participate in the proposed A$1.34bn (US$1.02bn) partial flotation of the federal government-owned Commonwealth Bank.

AMP's chief manager for investment operations, Mr Leigh Hall, said his group would sub-underwrite the flotation and also take up stock. He declined to say how much.

He said AMP did not usually make public statements on its investment activities.

"However, the extensive marketplace speculation and confusion as to AMP's position on this important offer were such that AMP felt it necessary to clarify the situation," he said.

There had been speculation in the market that AMP would snub the flotation, in which the federal Treasury plans to sell 29.75 per cent of the bank. A total of 239.3m shares will be offered publicly at A$5.40 a share and an additional 9m shares offered to staff at A$4.86 each.

The public offering officially opens today.

Last month, AMP reached agreement with Australia's largest bank, Westpac, on a strategic alliance in which AMP would eventually own 15 per cent of Westpac and underwrite Westpac insurance products sold through the bank's branches.

Westpac has agreed to buy AMP's half-share of the loss-making Chase AMP Bank.

Firm gold prices help Anglovaal

By Philip Gawith in Johannesburg

FIRMER gold prices and effective cost controls helped the Anglovaal group improve performance at its four gold mines in the quarter to the end of June.

Hartebeestfontein, which produces 75 per cent of the group's gold, recorded a virtually unchanged production performance, with gold output at the mine's main plant constant at 6,644kg.

Costs were only slightly higher at R24,992/kg, against R24,587/kg. The revenue position was significantly improved, thanks to the price received rising to R34,260/kg from R31,666/kg.

This was partly because the mine sold forward 1,866kg of its production at R35,851/kg. Also important was the actual rand gold price, which has recently been firmer due to a fairly constant dollar gold price and a sharp weakening of the rand against the dollar.

The other mines in the group enjoyed improved gold revenues for similar reasons. Including the mine's low grade operation, after-tax profits for the quarter were virtually unchanged at R39.8m ($14m).

Loraine, the marginal mine in the group, enjoyed the fruits of its rationalisation with an after-tax loss reduced to R162,000 from R5.2m last quarter. Although this was mostly the result of the significantly higher gold price received, lower costs contributed.

The other two mines in the group, Eastern Transvaal Consolidated (ETC) and Village Reef, improved profits. ETC managed to lower unit costs and lift milled output and yield. Combined with the better price, the mine's profit margin improved markedly to R12,000/kg from R8,953/kg. After-tax profits were R5.3m, against R3.8m.

Bank of New York declines

BANK of New York saw second-quarter net profit slip to $61m, or 75 cents a share, from $70m, or 90 cents, in the same period last year, writes our Financial Staff.

This left the bank, the ninth largest in the US after its acquisition of its New York rival, Irving Bank, for $1.4bn in 1988, with a first-half loss of $3m, equal to 27 cents, against a profit of $173m, or $2.27, last time.

The figures were after loan loss provisions of $127m, against $94m in the quarter and $470m against $158m in the six months.

Polaroid dips by 18.5%

POLAROID, the US maker of instant cameras, turned in an 18.5 per cent decline in second-quarter earnings, in line with expectations, writes Karen Zagor in New York.

Net income fell to $26.8m, or 33 cents a primary share, from $32.9m, or 45 cents, a year earlier. Earnings in the latest quarter were boosted by an $11m insurance settlement.

Revenues rose 10 per cent to $521.4m from $475.6m. US sales improved 14 per cent, while international sales increased 5 per cent.

Operating profits, down 20 per cent to $53.3m, were hit by the company's product mix, start-up costs for new products and a planned increase in marketing spending.

First-half earnings fell 33 per cent to $43.2m, or 46 cents a primary share, from $64.7m, or 89 cents, a year earlier.

Polaroid was particularly hard hit by the slump in tourism earlier in the year and the recession. Worldwide sales in the six months were $962.6m, 5.5 per cent above last year's $911.8m.

Mr I. MacAllister Booth, Polaroid's chairman and chief executive, said the recession and strength of the dollar overseas would play a large role in determining 1991 results.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on 17.07.91: Pool purchase price £/MWh	Final Prices for Trading on 16.07.91: Pool purchase price £/MWh	Pool selling price £/MWh
0030	18.96	17.99	18.97
0100	18.30	17.99	18.97
0130	18.22	16.16	16.16
0200	18.22	17.99	18.96
0230	18.22	17.99	18.96
0300	18.22	16.16	16.16
0330	18.22	16.16	16.16
0400	18.22	16.16	16.16
0430	18.22	16.16	16.16
0500	18.22	16.16	16.16
0530	17.28	16.16	16.16
0600	17.28	16.16	16.16
0630	15.67	16.33	16.33
0700	18.09	19.13	20.14
0730	18.84	19.36	20.41
0800	18.88	22.76	24.36
0830	20.86	25.59	27.84
0900	20.98	30.01	33.20
0930	21.04	33.38	37.23
1000	21.06	43.68	48.04
1030	21.07	47.96	52.75
1100	21.09	50.10	55.29
1130	21.14	56.00	61.78
1200	27.02	56.92	62.85
1230	26.99	53.28	58.43
1300	21.05	44.62	48.70
1330	20.99	27.07	29.52
1400	20.97	24.29	26.15
1430	20.96	23.10	23.10
1500	20.96	22.86	22.86
1530	26.27	22.78	22.79
1600	29.26	23.89	23.89
1630	29.28	34.34	36.79
1700	29.29	37.37	39.90
1730	29.30	35.72	37.87
1800	20.96	22.31	23.72
1830	20.95	21.08	22.16
1900	18.95	19.84	20.86
1930	18.88	19.77	20.79
2000	18.52	19.29	20.30
2030	18.36	19.13	20.14
2100	18.36	21.75	22.83
2130	20.74	21.75	22.89
2200	20.74	20.97	22.00
2230	20.74	20.97	21.96
2300	20.74	20.97	21.99
2330	18.36	16.73	16.73
2400	15.88	16.33	16.33

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £18.86/MWh becomes 1.886p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The provisional Pool Purchase Price is subject to revision or correction until final pool prices are determined approximately twenty-four days after the day of trading. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Final pool prices are also capable of revision.

NGC Settlements Limited

INTERNATIONAL COMPANIES AND FINANCE

Mutual Benefit expected to be seized

By Nikki Tait in New York

INSURANCE regulators in New Jersey were expected to take formal control of Mutual Benefit Life Insurance Company, the big, troubled life insurer, yesterday afternoon.

The takeover marks the largest insurance company collapse in the US, and follows similar seizures of ailing life insurers in other states.

The New Jersey Insurance Department said that it planned to go into court yesterday afternoon to place Mutual Benefit under state control.

A moratorium on withdrawals from the Newark-based group would also be instigated. The next step would be to appoint a conservator to oversee the group's financial affairs. The eventual aim would be to "rehabilitate" the business.

Policyholders have besieged the New Jersey insurer in recent days, anxious to get their money out after recent publicity. On Monday, investors were reportedly being turned away, in an attempt to staunch the outflow of funds. The insurer is currently believed to be meeting all death benefit payments, annuity payments and so on in full, and this is expected to continue.

With some 400,000 policyholders and year-end assets of $13.5bn, Mutual Benefit is reckoned to be the largest single insurance company to be seized by US state insurance regulators. Its problems stem from its heavy exposure to the property market – estimated to account for about 40 per cent of assets – and the growing nervousness among the policy-owning public about the health of America's life insurance industry. This prompted a run on the insurer.

Unlike Executive Life of California, which started the wave of life insurance company collapses, Mutual Benefit was not heavily invested in "junk bonds", nor was it thought to be a "maverick" within the US insurance industry. First Capital and Monarch Life – two smaller companies – have also been seized by regulators in California and Massachusetts respectively.

Record profits indicate revival at broking houses

By Patrick Harverson in New York

FURTHER evidence of the revived fortunes of Wall Street's broking houses was provided yesterday when Merrill Lynch and Smith Barney, Harris Upham announced record second-quarter profits.

At Merrill, the largest US broker, earnings for the quarter soared 149 per cent to $184.3m on revenues of $3.1bn, against $74.1m on revenues of $2.8bn in the year-ago period.

All the main operating businesses at Merrill displayed strong growth. Increased investor interest in US securities markets boosted commission revenues 15 per cent to $526m, and a big rise in US and foreign stock and bond issue underwriting lifted investment banking revenues 31 per cent to $314m.

Merrill also did well on its proprietary business, with principal transaction revenues up a third to $463m as the company made strong revenue gains trading corporate bonds, over-the-counter securities, mortgage-backed securities, swaps, foreign exchange, high-yield bonds and foreign equities.

Asset management and custodial fee business was another lucrative sector, producing $195m in revenues during the quarter, up from $167.3m. At the end of June, client assets under fee-based management stood at $119bn, up $17bn on the previous year. Net interest and dividend profit rose 9 per cent to $157m.

The benefits of Merrill's cost-cutting programme were apparent during the quarter. Although non-interest expenses rose 10 per cent to $1.5bn, that increase resulted mainly from performance-related bonuses and consultants' fees. Excluding costs related to increased business volume, expenses fell 6 per cent.

At Smith Barney, where earnings rose 125 per cent to $37.4m, the story was similar. Buoyant securities markets spurred growth in investment banking, where revenues were 53 per cent higher than a year earlier at $95m, retail and institutional commissions (revenues up 9 per cent), principal trading (up 19 per cent) and net interest income (up 33 per cent). Mutual funds, asset management and mortgage banking business added $11.5m to profits, almost double the contribution in the second quarter of 1990.

The record earnings at Smith Barney helped second-quarter profits at its parent company, Primerica, grow 21 per cent to $117.3m. Primerica also enjoyed strong growth at its consumer finance operation, where earnings climbed 12 per cent to $43.1m. The group's insurance business fared less well, with income rising only slightly to $44.7m.

Banks plunge after write-offs

By Karen Zagor in New York

SECURITY Pacific and Wells Fargo, the two big California-based banking groups, yesterday turned in second-quarter results as grim as predicted.

Wells Fargo, which rattled investors last month when it said it would take a pre-tax loan-loss provision of $350m in the second quarter, warned that "the continuing uncertainties in the economy and the banking environment" might force it to further increase its allowance for loan losses.

At the end of the first quarter, the bank's loan-loss provision was $85m.

Security Pacific, the fifth largest US bank holding company, had net income of $46.7m, down 76 per cent from $195.2m in the 1990 period. Earnings per share fell 81 per cent to 30 cents from $1.59.

Although the earnings were slightly bleaker than the earlier projections of about $50m, or 33 cents a share, on Wall Street Security Pacific's shares were unmoved at $24⅝ at mid-session.

Security Pacific's provision for credit losses was $409.3m, against $160.7m a year earlier and $271.1m for the first quarter. Net credit losses totalled $307.4m, up from $225m in the first quarter, with the increases concentrated in the UK property market.

Commercial property problems in California and an increase in other non-performing loans, contributed to a 3.6 per cent increase in non-performing loans and leases from $2.31bn at the end of the first quarter.

Security Pacific has placed $200m of performing California property credits on non-performing status.

Wells Fargo's balance sheet also reflected the shakiness of the Californian economy. The bank, which has considerable exposure to the wilting west coast commercial property market, has been made more vulnerable by the number of its highly leveraged transaction (HLT) loans which have soured.

In the 1991 second quarter, Wells Fargo's net charge-offs totalled $183m, or 1.54 per cent of average total loans, of which $106m was related to HLTs.

The San Francisco-based bank had net earnings of $14m, or 21 cents a share, down 94 per cent from $232m, or $4.40, a year earlier. In the 1990 second quarter, Wells Fargo had an after-tax gain of $69m from the establishment of its joint venture with Nikko Securities.

For the first six months, net income fell 58 per cent to $166m, or $3.07 a share, from $392m, or $7.45, a year ago.

However, Mr Carl Reichardt, chairman and chief executive, noted that the bank's net interest margin rose 15 basis points in the second quarter, and its non-interest income and expense also improved over the first quarter.

● Chase Manhattan, which on Monday turned in second-quarter earnings of $132m against $52m a year earlier, has warned that it expects to be plagued by commercial property loan problems through the second half. Chase wrote off $117m for commercial property in its second quarter, compared with $21m a year earlier.

Scott Paper slides 59%

SCOTT PAPER, the world's largest producer of toilet tissue and napkins, announced that net profits slumped by 59 per cent in the second quarter, writes Nikki Tait.

On Monday, Boise Cascade, another paper company, announced a loss for the three-month period.

Scott made $35.5m in the three months, almost one-third of the $94.9m notched up in the period a year earlier. Sales stood at $1.21bn against $1.31bn, and earnings per share fell to 41 cents from $1.01.

Scott said the poor showing was "primarily the result of the depressed economic environment and weak markets" at S.D. Warren, its printing and publishing subsidiary.

It was also hit by a rising interest charge – $58.4m from $44.6m – and the impact of "selective machine curtailments", as Warren tried to tackle overcapacity.

However, Scott said that its personal care and cleaning business, Scott Worldwide, fared better due to the international operations. Sales for the US tissue interests rose by 5 per cent and the consumer and commercial operations had record volume. However, operating profit fell by 6 per cent.

Outside the US, there was a 19 per cent sales increase, and operating income was some 75 per cent higher.

GTE ahead despite rate dispute

By Barbara Durr in Chicago

GTE, the largest US-based local telephone company and the second-largest cellular phone company, reported second-quarter consolidated net income of $403m, or 45 cents per share, in line with expectations.

The results include a $22m after-tax charge stemming from a Texas district court decision against the company on rates.

Without this charge, consolidated net income of $425m, or 47 cents a share, was up 7 per cent over the second quarter of 1990 after adjusting for the Contel cellular phone operations purchased last year.

Consolidated revenues and sales, taking account of the Texas rate case decision, totalled $5.4bn, marginally higher than last year.

The company has asked the Texas appeal court for a rehearing of its case and says it will go to the Texas Supreme Court if the petition is denied. A resolution is not expected this year.

The Contel integration is expected to reduce costs in future, but for now Mr James "Rocky" Johnson, GTE chairman, said that such savings were only "modest".

Revenues from telephone operations were up only 1 per cent from last year to $3.8bn. Operating income from telecommunications products and services totalled $42m in the second quarter, up 8 per cent over last year and reflecting gains in customers for cellular phones.

A weaker US economy and decreased demand in Europe cut sales of electrical and lighting products to $529m from $548m. For the first six months of 1991, GTE's consolidated net income was $829m, or 92 cents a share, an increase of 7 per cent over last year.

Chemical Waste falls to $31m

THE RECESSION and problems with specific incinerator and landfill operations held down results at Chemical Waste Management, the largest US provider of hazardous waste services, writes Barbara Durr.

The company, 77 per cent-owned by Waste Management, reported second-quarter net income of $31.4m, down from $43m in the period last year.

Revenues were sharply up at $343.5m from $257.4m because of the acquisition of The Brand Companies.

But earnings per share declined to 15 cents compared with 21 cents per share in the year-ago period.

After the end of the second quarter, Chemical Waste appears to have succeeded in sorting out problems at its Port Arthur, Texas and Chicago incinerators.

The Port Arthur facility was granted approval for necessary modifications, and an interim consent decree was reached in Chicago on procedures that will allow resumption of operations.

The company has also been hit by stiff taxes on shipments of waste from other states for its landfills in Alabama, Louisiana and New York.

AHP slips in second quarter

AMERICAN Home Products, the US health care group, saw net profits decline in the second quarter to $265.2m, or 84 cents a share, from $270.4m, or 86 cents, in the year-ago period. However, the 1990 figure included a one-off gain of $70m, writes Our Financial Staff.

Revenues were little changed at $1.62bn from $1.61bn.

For the first half, earnings grew 5.6 per cent to $617.7m, or $1.96 a share, from $584.8m, or $1.86. Revenues were down slightly at $3.38bn from $3.42bn.

However, revenues in 1990 included sales from discontinued operations of $187m for the second quarter and $370m for the six months.

Last month, AHP announced it was to close five European plants during the next two years, to set up high-volume, specialist manufacturing sites to improve competition ahead of the single European market.

INTERNATIONAL CAPITAL MARKETS

US bonds becalmed as Fed puts pressure on rate

By Patrick Harverson in New York and Sara Webb in London

US government bond markets were becalmed yesterday morning, with prices across the maturity range little changed in exceptionally light trading.

At midday, the benchmark 30-year Treasury bond was up ⅛ at 96⅛, yielding 8.446 per cent. The two-year note was also slightly higher, up ⅛ at 100⅛, to yield 6.859 per cent.

Traders had awaited the testimony before Congress of Mr Alan Greenspan, chairman of the Federal Reserve, with some interest. However, Mr Greenspan said little new, and his description of the present monetary stance as a "watchful waiting" policy did nothing to drag the market out of its summer slumber.

The Fed continued to put pressure on a firm Fed funds rate, arranging $2bn in customer repurchase agreements yesterday in an attempt to bring the rate down to its target of 5¾ per cent. By midday, Fed funds were trading slightly above opening levels at 5¾ per cent.

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
AUSTRALIA		12.000	11/01	106.3869	-0.129	10.85	11.13	11.28
BELGIUM		10.000	08/00	103.0500	-0.650	9.48	9.49	9.26
CANADA *		9.750	12/01	98.5250	-0.100	9.98	9.99	9.90
DENMARK		9.000	11/00	98.1750	-0.100	9.28	9.37	9.20
FRANCE	BTAN	9.000	02/96	98.0145	-0.108	9.24	9.32	9.17
	OAT	9.500	01/01	102.1700	-0.250	9.13	9.21	9.06
GERMANY		8.375	05/01	98.8400	-0.310	8.58	8.56	8.33
ITALY		12.500	03/01	96.0100	-0.240	13.27	13.33	13.12
JAPAN	No 119	4.800	06/99	87.9821	-0.042	7.18	7.22	7.32
	No 129	6.400	03/00	98.2165	-0.054	6.72	6.78	6.88
NETHERLANDS		8.500	03/01	98.0100	-0.290	8.80	8.81	8.63
SPAIN		11.900	07/96	100.2750	+0.050	11.81	11.87	11.87
UK GILTS		10.000	11/98	98-28	-02/32	10.27	10.23	10.40
		10.000	02/01	98-21	-02/32	10.22	10.21	10.51
		9.000	10/08	92-04	+01/32	9.96	9.95	10.20
US TREASURY *		8.000	05/01	98-12	+06/32	8.24	8.33	8.30
		8.125	05/21	96-19	+05/32	8.44	8.51	8.49

London closing, *denotes New York morning session. Prices: US, UK in 32nds., others in decimal. Yields: Local market standard. Technical Data/ATLAS Price Sources

GOVERNMENT BONDS

■ UK government bond prices slipped yesterday as investors who recently had switched out of European bonds into gilts took profits.

Traders said the market picked up in the morning, helped by sterling's strength, but slipped in the afternoon on profit-taking. The 11¾ per cent gilt due 2003/07 slipped from 110⅜ at Monday's close to finish at 110 last night.

Traders expect to see further switching out of German government bonds and into the French bond market following the announcement of favourable inflation rate figures in France.

■ FRENCH inflation in June fell below the German rate for the first time since 1973, following three years of tough anti-inflation policies. In the year to June, French consumer prices rose 3.3 per cent, while German prices rose 3.5 per cent.

Traders said they expect to see further shifting into the French bond market given the lower inflation, lower political risk and the fact that 10-year French-German yield spreads are about 50 basis points.

French government bond prices weakened slightly yesterday, and the Matif futures contract fell to 105 from Monday's close of 105.22.

While hopes have been raised recently that the French central bank would cut interest rates soon, the Bank of France said it left its intervention rate unchanged at 9.00 per cent at a securities repurchase tender.

Meanwhile, German government bond prices fell, with the Liffe bund futures contract falling to 84.20 by late afternoon after opening at 84.55.

The Bundesbank announced that it will auction zero-coupon one and two-year bonds, known as Uschatze, today, but did not disclose the total amount to be sold. Traders reacted favourably, pointing out that investors' demand for short-dated paper is strong.

■ VOLUMES in the Japanese government bond market picked up yesterday as the Big Four securities houses – Nomura, Nikko, Yamaichi and Daiwa – returned to the market after four days' absence.

The four securities houses were banned from conducting corporate business as a punishment for compensating clients for their trading losses.

Volume in the benchmark No 129 JGB was about Y700bn, compared with Y300bn in recent days, but bond prices closed barely changed.

Ford Credit to tap Australian market

FORD Credit Australia plans to tap the Australian capital markets with a pivotal A$60m medium-term note issue, AP reports from Sydney.

No other non-bank issuer with less than a Triple-A rating has ventured into the Australian fixed interest market for funds since late last year, when qualms over credit quality in the deepening recession triggered a heavy sell-off in the local corporate and state-backed bond sectors.

Ford Credit Australia's outstanding corporate bonds are rated Single-A by Australian Ratings. The issuer's debt is guaranteed by its parent, Ford Motor Credit of the US.

The new issue is expected to carry a 12¼ per cent coupon and mature in 1995.

While the Australian corporate bond market has calmed considerably since late last year, many dealers say yields are still higher than warranted by ratings, in part reflecting limited liquidity.

While demand is expected to be good for the Ford Credit Australia issue, the company still is likely to pay a premium for testing the market waters.

● Australia & New Zealand Banking Group (ANZ) is planning to launch a new coupon-bearing transferable certificates of deposit (TCD) programme next week with a A$300m issue.

Dealers said the TCDs are expected to carry an 11.5 per cent coupon and mature in 1995.

FT/AIBD INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 6:10 pm on July 16

U.S. DOLLAR STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
ABBEY NATIONAL 8 7/8 93	150	101¾	102¼	+⅛	7.66
ALBERTA PROVINCE 9 3/8 95	600	103¼	103½		8.42
AUSTRIA 8 1/2 00	400	98¼	98½	-⅛	8.81
BANK OF TOKYO 8 3/8 96	100	98¾	99¼	+⅛	8.66
BELGIUM 9 1/8 92	400	101¾	102⅛	-⅛	7.35
BFCE 7 3/4 97	150	98	98½	+⅛	8.19
BNP 8 5/8 94	300	101½	101⅞		8.04
BP CAPITAL 9 5/8 93	150	102½	103⅛		7.73
CANADA 9 96	1000	103	103¼		8.17
CARCO 9 1/4 96	650	100¼	101¼	+⅛	9.18
CCCE 9 1/4 95	300	103¼	103⅝		8.15
COUNCIL EUROPE 8 96	100	98½	99	-⅛	8.37
CREDIT FONCIER 9 1/2 99	300	103⅝	104		8.81
DENMARK 0 98	250	54	54½	-1⅛	9.13
DENMARK 8 1/4 94	150	100⅞	101¼	+⅛	7.91
ECSC 8 1/4 96	193	100	100½	+⅛	8.23
EEC 7 1/4 93	250	99¾	100⅛	-⅛	7.38
EIB 7 3/4 96	250	98¼	98¾		8.19
EIB 9 1/4 97	1000	102¾	103	+⅛	8.65
ELEC DE FRANCE 9 98	200	101¾	102⅛		8.63
EUROFIMA 9 1/4 96	100	102⅞	103¼	+⅛	8.59
EXPORT DEV CORP 9 1/2 98	150	103⅝	104	-⅛	8.78
FINLAND 7 7/8 97	200	95¾	96¼	-⅛	8.83
FINNISH EXPORT 9 3/8 95	200	103⅝	103⅞	+⅛	8.38
FORD MOTOR CREDIT 9 1/2 93	300	102½	103		8.21
GEN ELEC CAPITAL 9 3/8 96	300	103⅝	103¾	+⅛	8.49
GMAC 9 1/8 96	200	100½	101	+⅛	8.97
HALIFAX 9 1/2 93	200	102⅞	103¼		7.83
IBM WORLD TRADE 7 5/8 93	150	99¾	100½	+⅛	7.71
IND BK JAPAN FIN 7 7/8 97	200	95¼	96¼	-⅛	8.84
INTER AMER DEV 7 5/8 96	200	96½	97		8.48
ITALY 8 1/2 94	1500	101½	101⅝		7.94
JAPAN DEV BK 8 94	150	100⅜	100¾		7.83
KANSAI ELEC PWR 10 96	350	104½	105		8.77
LTCB 8 5/8 93	150	101¼	101⅝		7.74
NEW ZEALAND 8 93	100	100½	101¼	+⅛	7.70
NIPPON CRED BK 9 3/4 93	150	103¼	103¾		8.01
NIPPON TEL & TEL 9 3/8 95	200	103⅝	104¼	+⅛	8.15
NORDIC INV BANK 9 93	200	102⅝	103		7.50
ONTARIO HYDRO 11 5/8 94	200	107¼	108	-⅛	8.32
OSTER KONTROLLBANK 8 1/8 93	200	101	101½	-⅛	7.43
PETRO-CANADA 7 1/4 96	200	95¼	95¾	+⅛	8.51
PRUDENTIAL RLTY SECS 0 99	365.216	49¾	50⅜	-1⅛	9.72
QUEBEC HYDRO 9 3/4 98	150	103	103½		9.15
QUEBEC PROV 9 98	200	99½	100⅛		9.09
SAINSBURY 9 1/8 96	150	101½	102¼		8.74
SAS 10 99	200	99½	101	-⅛	10.08
SBAB 9 1/2 95	500	103⅝	104	+⅛	8.35
STATE BK STH AUST 9 1/4 93	100	101¼	102¼	-⅛	7.96
SUMITOMO BK CAP MKT 9 3/8 93	150	102¾	103¼	+⅛	8.01
SWEDEN 8 1/8 94	150	100⅝	101⅛	+⅛	7.88
SWEDISH EXPORT 9 5/8 93	100	103¼	103½		7.44
TOKYO METROPOLIS 8 1/4 96	200	99⅝	99⅞		8.38
WORLD BANK 8 3/8 99	1500	99	99½		8.73
WORLD BANK 8 3/4 97	1500	101⅞	102		8.50
XEROX CORPN 8 3/8 96	100	95⅝	96⅛	+⅛	9.47

DEUTSCHE MARK STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
DEUTSCHE BK FIN 5 5/8 96	750	89½	89½		8.33
DEUTSCHE FINANCE 7 1/2 95	1000	97⅝	97⅞		8.28
EEC 5 3/8 93	300	95¼	95¾	+1⅛	9.03
EIB 5 3/4 98	400	86¼	86¾	+⅛	8.52
EIB 6 7/8 95	300	94¼	94¾	+⅛	8.50
EUROFIMA 6 1/4 98	400	87½	87⅞		8.71
FERRO DEL STAT 5 3/8 93	500	95	95		9.05
IND BK JAPAN FIN 5 5/8 96	200	87¾	87⅞	+⅛	8.84
IND DEV BK INDIA 6 3/8 94	200	88½	88⅞	+⅛	10.51
INTER AMER DEV 7 1/4 99	300	92¾	92¾	+⅛	8.54
LUFTHANSA INT FIN 5 7/8 98	500	85⅛	85⅝	-⅛	8.89
MET EST & PROP INTL 7 99	150	86½	86⅞		9.51
NAT BK HUNGARY 8 96	200	91⅛	91⅝	+⅛	10.23
QUEBEC HYDRO 6 3/4 99	300	88⅞	88⅞		8.79
SWEDEN 6 1/8 98	300	88¼	88¾	-⅛	8.52
VENEZUELA 8 1/4 93	100	96½	96⅞	+½	9.96
WORLD BANK 0 15	2000	16	16	-⅛	7.79
WORLD BANK 5 3/4 96	300	88¾	88⅞	-⅛	8.74
WORLD BANK 7 1/8 95	500	96½	96½	+⅛	8.29

SWISS FRANC STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
ASIAN DEV BANK 6 10	100	92½	93½		6.70
AUSTRIA 4 5/8 98	100	88½	90		6.85
CHUJITSUYA 7 3/4 95	50	101½	102	+½	7.31
COUNCIL EUROPE 4 3/4 98	250	89½	90½		6.77
EEC 5 1/2 00	100	90⅝	91		6.87
EIB 5 3/4 93	100	97½	98¼		6.95
ELEC DE FRANCE 7 1/4 06	100	104	105		6.80
FINLAND 5 3/8 95	150	96	96½	-⅛	6.46
GENERAL MOTORS 7 1/2 95	100	101¼	101½	+⅛	7.09
JAPAN DEV BK 5 1/2 94	100	96¼			6.91
NEW ZEALAND 4 7/8 99	200	88½	89	+⅛	6.87
QUEBEC HYDRO 5 08	100	79	80		7.20
SKANDINAVISKA ENSK 6 1/2 95	100	99½			6.65
WORLD BANK 5 03	150	86	87		6.73
WORLD BANK 7 01	600	102¼	102¾		6.69

YEN STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
AUSTRIA 4 3/4 94	30000	94⅞	95⅛		7.04
CANADA 4 3/8 92	80000	97½	97¾		7.21
CREDIT FONCIER 5 1/4 94	20000	94¼	94⅝	-⅛	7.23
DENMARK 7 95	40000	100⅛	100⅜	+⅛	6.94
EIB 4 5/8 94	40000	94¼	94⅝		6.99
GENERAL ELECTRIC 5 3/4 95	35000	97⅜	97⅝		7.41
INTER AMER DEV 7 1/4 00	30000	101⅞	102⅛		6.95
ITALY 5 3/4 92	150000	99½	99¾	+⅛	6.79
KANSAI ELEC PWR 4 5/8 94	60000	93⅝	93⅞		7.22
NIPPON TEL & TEL 5 7/8 96	50000	95½	95⅞		6.93
NORWAY 5 1/8 95	50000	94¼	94⅝		6.96
SWEDEN 5 5/8 95	20000	95¼	95⅝		7.00
WORLD BANK 6 3/4 00	50000	99⅝	99⅞		6.84

OTHER STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
BAYERISCHE VEREINS INT 7 94 LFr	600	94½	95½		9.32
KREDIETCORP 7 93 LFr	1000	95⅝	96⅝		9.28
WORLD BANK 8 96 LFr	1000	96½	97½		8.92
AMRO BANK 6 1/4 92 Fl	150	96½	97⅛		9.67
RABOBANK 5 3/4 93 Fl	150	94½	95¼		9.52
ALBERTA PROVINCE 10 92 C$	500	100⅛	100½	-⅛	9.72
BCE INC 9 5/8 93 C$	300	99¼	99¾		10.06
BELL CANADA 10 5/8 99 C$	150	98½	99	+⅛	10.91
BRITISH COLUMBIA 9 1/4 93 C$	150	99	99½		9.87
EIB 10 1/8 98 C$	130	97⅞	98⅜	-⅛	10.56
FORD CREDIT CANADA 10 94 C$	100	98	98½	+⅛	10.79
GENERAL ELECT CAP 10 1/4 93 C$	175	100⅞	101¼	+⅛	9.81
MONTREAL TRUSTCO 8 1/2 92 C$	100	98¾	99¼	-⅛	10.96
ONTARIO HYDRO 10 7/8 99 C$	500	100⅛	100½		10.83
QUEBEC PROV 10 1/2 98 C$	200	97⅜	97⅞	-⅛	11.01
ROYAL TRUSTCO 10 1/4 93 C$	100	99¼	99¾	+⅛	10.68
SWEDEN 9 3/4 93 C$	250	100⅛	100⅝		9.63
BELGIUM 9 1/8 96 Ecu	1250	99⅝	99⅞		9.13
CNT 7 3/8 93 Ecu	250	95½	96¼		10.02
CREDIT LYONNAIS 9 96 Ecu	125	97	98½	+⅛	9.79
DENMARK 7 5/8 96 Ecu	250	91⅛	92⅝	+⅛	9.89
EEC 7 5/8 94 Ecu	200	96⅛	96⅝		9.21
EIB 10 97 Ecu	1125	104¼	104⅝	-⅛	8.97
ITALY 10 3/4 00 Ecu	1000	108¼	108⅝	-⅛	9.32
UNITED KINGDOM 9 1/8 01 Ecu	2750	99⅞	99⅞	-⅛	9.15
BMW FINANCE 14 1/2 92 A$	100	101⅝	102⅛	-⅛	11.94
COUNCIL EUROPE 13 93 A$	50	101	102	-⅛	12.16
EKSPORTFINANS 12 3/8 95 A$	75	102⅞	103⅜	+⅛	11.39
FORD CRED AUST 13 93 A$	50	100	101	-½	12.87
ICI 15 1/2 92 A$	100	102⅞	103⅜		11.74
MCDONALDS CANADA 15 95 A$	100	108⅛	108⅝		12.19
NAT AUSTRALIA BANK 14 3/4 94 A$	150	105⅛	106	-⅛	12.05
STATE BK NSW 14 1/4 99 A$	100	108⅜	109⅛	+⅛	12.46
VOLKSWAGEN INTL 15 94 A$	100	106¼	107¼	-⅛	11.93
ABBEY NATL TREAS 13 3/8 95 £	100	106⅛	106⅝		11.16
BARCLAYS JERSEY 9 1/2 93 £	250	97⅝	98		11.02
BRITISH GAS 12 3/4 95 £	300	105⅛	105⅝	+⅛	10.89
DEUTSCHE BK FIN 11 94 £	225	100⅝	101		10.64
EIB 10 97 £	386.5	97⅛	97½	+⅛	10.68
FORD CREDIT FUNDING 9 5/8 93 £	50	96⅝	97⅜	+⅛	11.72
INTER AMER DEV 11 3/8 95 £	75	101⅞	102⅜	-⅛	10.74
ITALY 10 1/2 14 £	400	93⅝	94		11.26
LAND SECS 9 1/2 07 £	200	81¼	81¾		12.20
LEEDS PERMANENT 9 1/4 93 £	50	96¼	97¼		11.24
NORWAY 10 1/2 94 £	200	99½	99⅞	+⅛	10.67
ROLLS-ROYCE 9 5/8 93 £	150	96⅞	97⅜		11.48
SAINSBURY 10 7/8 93 £	100	99½	100		11.15
SKANDINAVISKA ENSK 13 1/8 95 £	100	104⅞	105⅜	+⅛	11.35
WORLD BANK 11 1/4 95 £	100	101⅝	102¼	-⅛	10.68
ABBEY NATIONAL 0 96 NZ$	100	58¼	59¼	+⅛	10.87
TELECOM NZ O/S FIN 13 1/8 93 NZ$	75	104⅛	105¼	+⅛	10.72
AIDC 7 7/8 93 FFr	600	96⅛	96⅝	+⅛	9.75
EURATOM 7 5/8 98 FFr	500	92⅛	92⅝	-⅛	9.21

FLOATING RATE NOTES	Issued	Bid	Offer	C.cpn
ALBERTA PROVINCE 1/32 93	500	99.99	100.09	6.5156
ALLIANCE & LEICS 0.08 94 £	300	99.47	99.57	11.9550
BANCO ROMA 0.03 01	200	91.88	92.88	6.4675
BANCO SANTO SPIRITO 0 93	200	99.51	99.62	6.5000
BELGIUM 1/16 97 DM	500	99.95	100.10	9.1250
BFCE -0.02 96	350	99.82	99.92	6.1050
BNP 05	300	95.75	96.75	6.4375
BRITANNIA 1/10 96 £	150	99.05	99.25	11.9750
CCCE 06 ECU	200	99.81	99.91	9.5938
CITIZENS FED 0.15 96	100	99.25	99.75	7.0250
COMMERZBK O/S FIN 93	200	99.89	99.99	6.5625
DENMARK -1/8 96	1000	99.59	99.69	6.5938
DRESDNER FINANCE 1/32 98 DM	1000	99.95	100.04	9.2656
ELEC DE FRANCE 1/8 99	400	100.33	100.70	7.0000
FERRO DEL STAT 94	200	100.45	100.70	6.8750
HALIFAX 1/10 94 £	200	99.80	99.90	11.7250
HILL SAMUEL 1/4 PERP	75	84.50	86.50	6.4375
MITSUI FIN ASIA 1/8 96	100	99.51	99.61	7.0000
MORGAN (JP) 1/4 97	250	98.50	99.25	6.2500
NAT WEST FIN 3/16 05	400	91.75	92.75	6.5000
NEW ZEALAND 93	500	99.87	99.97	6.5000
QUEBEC PROV 01	300	96.18	96.43	6.1250
RENFE 98	500	99.88	99.98	6.0625
SOCIETE GENERALE 96	300	99.09	99.19	6.3125
STATE BK VICTORIA 0.05 99	125	98.50	98.75	6.4875
UNITED KINGDOM -1/8 96	4000	99.99	100.02	5.9975

CONVERTIBLE BONDS	Issued	Conv. price	Bid	Offer	Prem.
ARGYLL GROUP 4 1/2 02 £	60	2.86	115½	116½	+9.38
ASDA-MFI 4 3/4 02 £	100	1.64	117¼	118¼	+99.26
BURTON GROUP 4 3/4 01 £	110	3.15	116½	118¼	
EASTMAN KODAK 6 3/8 01	300	50.67	96	97	+18.28
GOLD KALGOORLIE 7 1/2 00	65	1.0554	73¼	74¼	+50.50
GOODYEAR TIRE 6 7/8 03	150	80¼	75	76¼	+68.95
GRACE (WR) 6 1/4 02	150	42¼	90¼	91¼	+16.98
HANSON 9 1/2 06 £	500	2.5875	97½	98¼	+22.17
HAWLEY 6 02 PREF	400	19.1	77	81	
HILLSDOWN 4 1/2 02 £	150	4.16	110½	111½	+99.86
INTL PAPER 5 3/4 02	200	68¼	106¼	107¼	+2.81
LAND SECS 6 3/4 02 £	84	6.72	81⅞	83	+13.68
MITSUBISHI BK 1 3/4 02	300	2727.1	99¼	101¼	-1.10
OGDEN 6 02	85	39.077	68⅞	69⅞	+43.54
PACIFIC DUNLOP 6 3/4 97	75	3.749	105¼	106¼	-0.17
TEXAS INSTRUMENTS 2 3/4 02	300	82⅞	83¼	84¼	+84.88
THORN EMI 5 3/4 04 £	103	7.45	112¼	113¼	+15.22

* No information available - previous day's price
‡ Only one market maker supplied a price

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day.
FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate (three-month §above mean rate) for US dollars. C.cpn=The current coupon.
CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares

Bio-group plans $60m convertible issue

By Sara Webb

HUNTINGDON International, the UK biological safety testing and engineering services group, is issuing a $60m convertible capital bond.

The 15-year bond carries a coupon of 7.25 to 7.50 per cent, and has a conversion premium of 16 to 20 per cent. The issuer can call the bond after September 25 1996.

INTERNATIONAL EQUITIES

Huntingdon International provides contract research. It is split into a Life Sciences division, which carries out the laboratory testing of pharmaceuticals and agrochemicals, and an Engineering/Environmental Services division, which is involved in construction-related testing and identification of environmental pollution problems.

The company is listed on both the London and New York stock exchanges. It is issuing a dollar-denominated convertible bond because its shares are more actively traded in the US and about 75 per cent of its shareholders are US-based.

The issue will lead managed by J. Henry Schroder Wagg, with Merrill Lynch as co-lead manager. The lead managers expect half the issue to be sold in the US and half to be sold in Europe.

Elsewhere, Telecom New Zealand has increased its international share offering by 50 per cent because it was heavily oversubscribed. Trading in the shares starts tomorrow.

Telecom New Zealand is issuing 10.5m American Depository Shares in North America, 10.5m ADSs internationally (both up from 7m), and 210m shares in New Zealand (up from 140m). The issue has been priced at NZ$ 2 per share.

● Mr Michael Cohrs, joint head of Goldman Sachs' international equity syndication division, has left to join S. G. Warburg. Mr Cohrs, aged 35, will join Mr Maurice Thompson as joint head of S. G. Warburg's equity capital team.

● Barclays de Zoete Wedd is planning to launch a $50m Philippines fund which will invest in the Philippines' sovereign debt. The closed-end fund is to be listed on the Hong Kong Stock Exchange.

BZW believes that the fund can provide an annual return of 20 to 30 per cent by investing in the Philippines' floating-rate offshore dollar-denominated debt.

The fund will be managed by BZW Investment Management in Hong Kong and will be aimed at both private and institutional investors in London and Hong Kong.

NEWS IN BRIEF

SBC gains Fed OTC approval

SBC Government Securities, a subsidiary of Swiss Bank Corporation, has received Federal Reserve approval to begin dealing in all over-the-counter options on US Treasuries, Reuter reports from New York. SBC Government Securities is one of 40 primary dealers in US government securities.

"With today's announcement, the group augments its product line with market-making and strategic analysis in OTC options on US Treasuries," SBC Government Securities said.

Benelux Int'l oversubscribed

BENELUX International, the maker of magnetic memory storage products, said its HK$57m flotation had been 19 times subscribed, AP-DJ reports. The issue of 56m new shares, priced at HK$1.01 each, represents 25 per cent of the company's enlarged capital. The shares are scheduled to start trading July 25.

Bear Stearns expansion

BEAR Stearns, the US securities house, plans to expand its global futures business, and is appointing Mr Morton Lane as a senior managing director to direct the effort. "Our institutional futures business has become a major area of expansion," the company said.

HK regulators approve SE plan

HONG Kong's securities watchdog, the Securities and Futures Commission (SFC), has approved the restructuring plan adopted last week by the stock exchange, Reuter reports from Hong Kong. The plan must still win approval by the exchange's members.

FT LAW REPORTS

Investment representative cannot fight intervention notice

THE QUEEN v LIFE ASSURANCE UNIT TRUST REGULATORY ORGANISATION, EX PARTE ROSS

Queen's Bench Division (Divisional Court): Lord Justice Mann and Mr Justice Hidden: July 5 1991

AN ORGANISATION which is set up to regulate its members' investment business, and which intervenes in a member's affairs by prohibiting it from operating through a particular agent, thus damaging that agent's business, is not required by law to hear representations from the agent before serving the intervention notice on the member, nor to give him an opportunity to appeal.

The Divisional Court so held when dismissing an application by Mr David Hugh Ross, sole director of Winchester Group plc, for judicial review of a decision by the Life Assurance Unit Trust Regulatory Organisation (Lautro), prohibiting Norwich Union Life Assurance society from accepting investment business from, and soliciting business through, Winchester

LORD JUSTICE MANN said that Lautro was a "self-regulating organisation" under the Financial Services Act 1986.

By section 8(1) of the Act, a "self-regulating organisation" meant a body which regulated the carrying on of investment business by enforcing rules which were binding on its members or on persons "subject to its control". By section 8(2) "members" of a self-regulating organisation were persons who were "subject to its Rules".

The purpose of the Act, among other things, was to regulate the carrying on of investment business.

Section 1 prohibited anyone from carrying on investment business unless he was an "authorised person" under Chapter III, or an "exempted person" under Chapter IV.

Section 7 provided that a member of a recognised self-regulating organisation was an "authorised person" by virtue of membership.

Norwich, as a Lautro member, was an "authorised person". Winchester was Norwich's "appointed representative" and as such, but not otherwise, was an "exempted person". By section 44(2) an "appointed representative" was a person employed by an authorised person to carry on investment business.

By rule 2.12(1) of the Lautro Rules, a member was obliged to establish and maintain rules and procedures to be complied with by his appointed representative in his dealings with investors.

By rule 7.3(2) Lautro was empowered to prohibit its members from entering into transactions of a specified kind, or from soliciting business of a specified kind.

In September 1990 a Mr Robert Kissane, one of Winchester's previous directors who had all been replaced by Mr Ross, was arrested and charged with fraud arising out of activities when he was employed by Royal Life. In addition there was an apparent connection between Winchester and a Mr Randhir Singh who had recently been arrested on fraud charges arising out of his employment with Abbey Life.

On October 15 1990 Lautro notified Norwich of its intention to conduct a full investigation into Winchester's business. Documents were removed from Winchester's office. In the investigator's opinion there was evidence to show that there had been serious breaches of the Lautro Rules in respect of business conducted by Winchester on Norwich's behalf.

On October 30 the Lautro board resolved to exercise its powers of intervention under Rule 7.3(2). It approved a press release summarising in detail the terms of the notice. The notice was served on Norwich, as was required by rule 7.3(9) of the Rules. It embodied the decision of October 30.

It prohibited Norwich, pending conclusion of the investigation, from accepting any new investment business from Winchester; and from soliciting investment business from the public through Winchester.

In the board's view the material before it indicated *inter alia* that Winchester's connections with previous directors and Mr Singh called in question the extent to which Winchester's controllers, directors and senior managers, could be regarded as of good character; and that certain Winchester representatives appeared to be channelling client monies through their own personal bank accounts.

A copy notice was sent to Winchester. The first it knew of the decision was when the copy appeared on its fax machine on October 31.

Norwich did not appeal against the notice, as it had a right to do under rule 3.7(11). On January 11 1991 it gave three months notice of termination of the agency agreement by which Winchester had become its appointed representative.

Winchester was entitled legitimately to conduct its investment business as an "exempted person" only by reason of its status as the authorised representative of Norwich (see section 44(1)).

The prohibition on Norwich had a seriously damaging effect on Winchester. The effect of an intervention notice cast in such terms and reflected in an accompanying press release must be most damaging to the authorised representative until (if ever) the notice was withdrawn.

Winchester said the allegations in the notice were unfounded and that some or all of the factual material on which they were based was inaccurate. Lautro accepted that some of the facts were mistaken and that there might be qualifications to some of the allegations.

Mr Collins for Winchester asserted that natural justice required that Winchester had a right to be heard before the October 30 decision was made, or at least a right that Lautro should consider whether to hear it. Mr Beloff denied both those rights.

Mr Collins said that any person whose interests were directly affected by the decision of a body acting in the public domain must ordinarily be given the opportunity of knowing what was alleged against him and of making representations to the decision taker. Where that right was not granted by the framework within which the decision operated then it should be supplied as an implied grant by the law.

His contention ran counter to a policy consideration.

If the law was to imply an obligation to hear representations, it must also specify with precision to whom that obligation was owed. If persons beyond the subject of the decision were included then specificity became impossible.

A regulatory body should know with precision from whom (if anyone) it had to invite or receive representations without first having to form an impugnable judgment as to who those persons were.

The Lautro Rules gave no right to anyone to make a representation before an intervention decision was made.

The purpose of intervention powers under the Lautro Rules was the protection of investors. Achievement of that purpose must on occasion require action which had to be taken urgently, and the entertainment of representations might not be compatible with urgency.

The omission from the Lautro Rules reflected an omission from the Act, made with a deliberation in each case which made implication impossible.

The challenge based upon the implication of a natural justice requirement must fail.

Mr Collins deployed two further arguments.

First he said Winchester was a member of Lautro; second, that Winchester had a right of appeal under the Lautro Rules.

Mr Collins said that Winchester was "subject" to the Lautro Rules and was therefore a member of Lautro by the meaning of section 8(2).

Rule 2.12(1) imposed an obligation on Norwich to secure that Winchester, as its appointed representative, complied with the Rules, but it was doubtful whether that was sufficient for the purposes of section 8(2). However, assuming that it was and that Winchester, for the purposes of the Act, became a member of Lautro, that did not lead to any relevant conclusion. Membership could only be relevant if it conferred a right of appeal which had been denied to Winchester.

Rule 7.3(11) provided that "a member to whom a notice under this rule is given may appeal". Norwich was such a member. Winchester was not.

There was no requirement in the Act that a right of appeal should be given to a person who was not the recipient of an intervention notice.

The application was dismissed. Mr Justice Hidden agreed.

For Winchester: Andrew Collins QC and Cherie Booth (Carter Faber).

For Lautro: Michael Beloff QC and Richard Gordon (Slaughter and May).

Rachel Davies
Barrister

Mizuno leads Japan into Ecu-denominated issues

By Simon London

IN the equity warrant sector of the international bond market, Mizuno Corporation, a Japanese manufacturer of sports goods, reacted to the glut of supply by making Japan's first Ecu-denominated issue.

The Ecu70m four-year deal, lead managed by Nikko Securities, was seen as an innovative response to the flood of issues seen in the Eurodollar and D-Mark sectors of the market.

INTERNATIONAL BONDS

Warrant bond issues in Ecu by Japanese companies have in the past been uneconomic because the borrower could not swap the proceeds of the issue into yen at an attractive rate. However, participants in yesterday's deal said that the cost of funds to the borrower was comparable with recent D-Mark issues.

The issue receive a favourable reaction from investors, trading up from an issue price of par to close at 100.50 bid by the close of trading. Many recent deals in other currency sectors have fallen below issue price and outside the level at which the underwriters own the bonds.

Elsewhere, Procter & Gamble, the US consumer products group, yesterday raised C$200m in a 10-year deal lead managed by Goldman Sachs. The paper carries a coupon of 10⅞ per cent and was priced to yield 62.5 basis points over Canadian government bonds.

The lead manager said that it had placed C$130m of a C$145m underwriting commitment by the close of trading, but others in the group reported a slower response. The deal is the fourth 10-year Canadian dollar bond issue in two weeks – previous $200m deals have come from Eurofima, PSK and BP America.

At the fixed re-offer price, the bonds offered a yield 8.5 basis points less that that available on the BP deal, launched yesterday. However, Procter & Gamble is a better credit, rated AA1/AA by Standard & Poor's and Moody's Investors Service, the two main US credit rating agencies.

Export Development Corporation of Canada came with its first dollar-denominated issue since 1989, raising $200m over three years in a deal lead managed by Credit Suisse First Boston.

The bonds carry a 7¾ per cent coupon and were priced to yield 30 basis points over US Treasury bonds. The bonds carry a top triple-A credit rating, a rarity in the current uncertain economic climate, and saw firm demand from a range of retail and institutional investors.

Most participants in the deal commented that the pricing was fair, but many said that a slightly longer-dated deal with a higher coupon would have sold better. The US dollar yield curve is very steep between three and five years and investors may have preferred a higher yield for little additional duration exposure to a very strong credit.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees	Book runner
US DOLLARS						
Exp.Devt.Corp of Canada(b)†	200	7¾	101.2125	1994	1⅜/1.3	CSFB
Komatsu Seiren(a)♦	100	4½	100	1995	2¼/1½	Yamaichi Int.
SMC Corp(a)♦	100	4½	100	1995	2¼/1½	Nikko Securities
St. George B.S.(c)‡†	100	(c)	100	1998	⅜/¼	BTI
HIH Capital(d)§	60	(7¼-7½)	100	2006	2½/1½	J. Henry Schroder Wagg
CANADIAN DOLLARS						
Procter & Gamble(a)†	200	10⅞	101.30	2001	2/1¾	Goldman Sachs
ECUs						
Mizuno Corp(a)♦	70	5½	100	1995	2¼/1½	Nikko Securities
SWISS FRANCS						
Shindengen Electric(e)★★♦	60	3⅝	100	1995	1⅝	Banque Paribas (Suisse)
Konami(f)★★♦	80	3⅞	100	1995	1⅝	Nomura Bk (Switz)

★★Private placement. §Convertible. ♦With equity warrants. ‡Floating rate note. †Final terms.a) Non-callable. b) Includes an issue of 200,000 debt warrants which holders may subscribe to $200m of 8½% EDC bonds due 2003. c) Coupon pays 45bp over 3-month Libor. Put option once at par August 1994 and August 1996. Non-callable. d) Callable (from 25/9/96 to 25/9/99 at par subject to 130% rule. Coupon payable semi-annually. e) Callable at 101% in 1993 and 100½% in 1994. f) Callable February 1994 at 101½% declining ½% semi-annually.

ADB agrees $100m loan to Philippines

THE ASIAN Development Bank (ADB) yesterday approved a $100m loan for the government's Development Bank of the Philippines (DBP) for lending in turn to small and medium-sized industries, writes Greg Hutchison in Manilla. The loan is for the provision of long-term credit.

The loan, guaranteed by the Philippine government, will be re-lent by the Development Bank of the Philippines (DBP) to participating financial institutions at market-based fixed and variable rates set half-yearly.

The participating financial institutions will lend in turn, also at market rates, to finance the direct and indirect foreign exchange costs of specific development projects.

The maximum sub-loan will be $8m. At least half the funds will be lent on to industries with an asset size of less than 20m pesos ($715,000).

However, to reach medium-size enterprises in sub-sectors where the presence of smaller industries is limited, loan proceeds will be also be available to companies with asset sizes of up to $12m.

Chicago keeps the bugs out of the pits

Barbara Durr reports on the delay in introducing trading by electronic cards

MR DALE Lorenzen, the man heading the Chicago Board of Trade's effort to develop a hand-held electronic trading card, is having nightmares. He dreams, he says, of being buried under thousands of electronic trading cards thrown by angry futures traders who don't like the new gadgets. "At about a pound a piece, that's a lot of weight," he said.

Mr Lorenzen is not alone in his anxiety. He and the other nine members of the joint CBOT and Chicago Mercantile Exchange committee charged with shepherding the idea of an electronic trading card into reality have just decided to postpone the pit testing phase of the first prototype of what's known as "Audit" (Automatic Data Input Terminal).

Although testing of prototypes in one pit in each exchange was due to begin by the end of this month, Mr Lorenzen and Mr John Geldermann, chairman of the CME, say that trials on exchange floors are unlikely to start until after the summer.

They acknowledge that the reason they have postponed the tests is fear of a negative reaction from traders. While the tests were originally thought to be a way of getting feedback from traders so that the devices could be altered to suit their needs, the Audit committee has now decided that the bugs must come out before they are put in the hands of traders.

Apprehension about having to use the device has gripped some traders, particularly the older generation less accustomed to computers. Some older traders say they will simply leave. "We're asking them to do something that's foreign to them," said Mr Lorenzen.

So, added Mr Geldermann, to be sure that the pit tests go smoothly, "we don't want to bring this out on the floor until we're sure we're at the peak of development".

For Spectrix, the Evanston, Illinois, company that has produced the first of three prototypes,the delay is frustrating. It has worked with Panasonic to design a touch screen model that could mean as few as three jabs of the finger to complete a trade. It works on infra-red signals that cannot be interrupted.

Synerdyne, of California, and Texas Instruments are preparing two other prototypes, each of which uses the new technology of computer handwriting interpretation. Mr Lorenzen said the exchanges wanted to attempt to develop a handwriting Audit as it is closer to what the traders do now, which is a quick scribble of their trades on paper cards. But computer handwriting interpretation is so new that, he said, "we're on the very edge of technology".

The three suppliers were chosen last year from a field of 53. Sales to the two Chicago exchanges are expected to generate $23m to $40m for the eventual winning supplier – based on about 8,000 units at $3,000 to $5,000 a piece.

But the appeal of the contract is considerably greater.

John Geldermann: no trials until after the summer

Other futures exchanges will have to shift to the new technology,and equity and options markets are also candidates. More attractive still is that the technology will be applicable to such massive markets as medical services and restaurants.

The Chicago exchanges were prompted to develop jointly a hand-held computerised trading card in 1989 after a two-year investigation of the futures markets by the Federal Bureau of Investigation produced 48 indictments of fraud. Many of the fraud allegations involved alteration of trading cards.

Audit is thus being designed to eliminate the possibilities of abuse by providing a clear trail of each trade down to the milli-second.

By developing Audit, the exchanges – which have jointly spent $5.5m on the project – hope to lift the lingering cloud of suspicion that pit trading is permeated by fraud. "We want to prove that what we do is honest," said Mr Lorenzen. But the exchanges would have been obliged in any case to take such a step under legislation that is being finalised in Washington. It will require that precise electronic tracking of trades be implemented fully on exchange floors within the next three years.

Most traders are resigned to the fact that they will have to adjust and try to look at the upside. "Anything that we can do to instil confidence in the markets is a good thing," said one independent trader.

But this chin-up attitude is hardly universal. Many harbour serious reservations about how quickly they will be able to work on the new gadgets and how reliable they will be.

Mr George May, a local CBOT trader, said he believed that locals, who comprise about two-thirds of the floor populations in the two exchanges, will miss trades and make mistakes they cannot afford. He believed the result would be that the Audit would slow down the markets. "It will have a devastating effect," he said.

On the other hand, one of the Audit's biggest attractions for traders is that it will eliminate overnight exposure to trading mismatches, called out-trades. At present, if two traders botch a trade, they do not discover the error and are unable to correct it until the next day. With Audit, they will be notified within a minute or two and can correct it immediately.

Under the current schedule, Audit prototypes will continue to be tested in mock trading sessions by the 10-man committee with some volunteers until the end of August. At that point, several of the first Spectrix prototypes will be put in the CBOT's wheat pit and the CME's Deutschmark pit for traders to use for a limited time in genuine trading.

Testing and refinement are to continue until a final selection is made at the end of this year. Whatever Audit model is chosen, it is expected to be in full use by local traders by the end of 1992. All brokers will be obliged to use them about a year later.

While this marriage of open outcry trading with electronic trading may work to save the pits from extinction, it could also alter them profoundly. As the exchanges move to a paperless floor, far fewer support personnel, many of whom are engaged in shuttling paper around, are likely to be needed. Today, these workers make up about 70 per cent of the people on the floor of the exchanges.

Such a paring would represent enormous cost savings for firms and the exchanges, but it would also change the nature of the markets. Much of their colourful hustle would be gone. But perhaps that is an inevitable trade-off to maintain the core of open outcry.

Japanese bank loans trebled in property boom

JAPANESE bank lending to real estate companies nearly trebled in the property boom of the late 1980s, a survey shows, Reuter reports from Tokyo.

Outstanding loans of 98 Japanese banks listed on the Tokyo Stock Exchange to domestic real estate companies increased to Y49,910bn ($364bn) at the end of March 1991, from Y17,800bn in March 1985, says the survey.

The survey was conducted by Tokyo Shoko Research. "These data reaffirm that the surge in bank lending to property [companies] influenced the increase in land prices," the report said.

Loans to the property industry grew much faster than overall loans by the same banks. Overall, loans increased only 90 per cent in the same period, which saw a deep easing of credit by the Bank of Japan.

Mitsui Taiyo Kobe Bank's exposure to real estate companies was the largest at Y4,240bn in March, 3.8 times higher than six years ago.

S&P upgrades CD ratings

STANDARD and Poor's has upgraded the new certificates of deposit ratings to A-minus/A-2 from B/B on Bank of New England and Connecticut Bank and Trust, both former units of Bank of New England Corporation.

S&P said the action reflected the completion of Fleet/Norstar Financial Group's federally assisted acquisition of the two banks.

● Clorox sold $200m of 8.80 per cent 10-year notes, priced at 99.50 to yield 62 basis points over comparable Treasuries via lead manager J. P. Morgan Securities.

Fininvest raises profits by 33.6% to L190.5bn

FININVEST, the Italian media, retailing and investment group controlled by Mr Silvio Berlusconi, raised group net profits by 33.6 per cent to L190.5bn ($143m) for 1990. Turnover rose by 13.2 per cent to L7,561bn, writes Haig Simonian in Milan.

The rise in earnings was accompanied by a further increase in net borrowings, which climbed by 19 per cent to L2,417bn at end-December 1990. The effect of higher financial charges was confirmed at parent company level, where net earnings fell to L37.8bn from L54.7bn.

Fininvest's debt is expected to rise further this year, following last May's agreement between Mr Berlusconi and Mr Carlo De Benedetti to divide Mondadori, Italy's leading publisher, between them.

Consolidation of Mondadori's book publishing activities, most of its magazine interests and a half share in its media space-buying operation, will play a leading role in raising Fininvest's group turnover in 1991.

LONDON MARKET STATISTICS

FT-ACTUARIES SHARE INDICES

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EQUITY GROUPS & SUB-SECTIONS. Figures in parentheses show number of stocks per section	Tuesday July 16 1991: Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (Act at (25%))	Est. P/E Ratio (Net)	xd adj. 1991 to date	Mon Jul 15: Index No.	Fri Jul 12: Index No.	Thu Jul 11: Index No.	Year ago (approx): Index No.
1 CAPITAL GOODS (184)	815.48	+1.1	10.63	5.92	11.60	22.20	806.24	802.71	804.14	896.56
2 Building Materials (24)	1036.38	+1.2	9.41	6.02	13.45	30.76	1023.63	1021.01	1021.95	1122.62
3 Contracting, Construction (31)	1144.99	+0.4	9.61	6.82	13.73	31.97	1140.47	1133.38	1133.41	1467.93
4 Electricals (10)	2335.81	+1.0	10.99	5.73	11.58	61.85	2312.92	2280.07	2299.53	2459.87
5 Electronics (25)	1710.21	+1.1	8.81	5.26	15.09	46.44	1691.14	1717.57	1714.26	1845.89
6 Engineering-Aerospace (8)	407.45	+0.1	16.80	6.15	7.15	12.11	406.88	406.70	407.36	488.85
7 Engineering-General (46)	439.31	+1.1	12.55	5.73	9.76	11.82	434.51	433.31	433.45	491.08
8 Metals and Metal Forming (8)	431.02	+1.3	16.37	8.20	7.50	16.70	425.45	436.71	438.77	493.64
9 Motors (12)	314.76	+2.0	12.55	7.68	9.39	9.98	308.51	304.11	302.73	363.47
10 Other Industrial Materials (20)	1574.93	+1.4	8.85	5.11	13.28	34.85	1553.44	1525.48	1532.70	1640.35
21 CONSUMER GROUP (187)	1500.99	+0.9	7.81	3.62	15.75	24.21	1487.27	1467.65	1471.01	1339.52
22 Brewers and Distillers (22)	1832.13	+1.0	8.40	3.62	14.52	27.57	1813.45	1789.91	1779.74	1646.36
25 Food Manufacturing (19)	1185.41	+0.3	9.68	4.17	12.76	24.43	1181.40	1169.32	1177.94	1128.41
26 Food Retailing (17)	2729.20	+1.1	7.89	3.07	16.57	39.61	2700.48	2661.57	2669.94	2612.28
27 Health and Household (22)	3670.74	+1.3	5.19	2.35	22.04	30.86	3623.60	3555.82	3591.23	2675.99
29 Hotels and Leisure (23)	1236.96	+1.2	10.28	5.60	11.61	30.99	1222.05	1212.78	1226.40	1465.44
30 Media (26)	1407.65	....	9.09	5.00	13.95	36.17	1408.35	1398.11	1385.58	0.00
31 Packaging, Paper & Printing (17)	717.11	+1.5	7.85	4.60	15.39	14.33	706.45	701.98	704.02	625.01
34 Stores (32)	936.67	+0.6	8.27	3.88	15.79	17.06	930.72	918.24	914.63	832.62
35 Textiles (9)	550.20	+2.0	9.11	5.63	13.63	13.79	539.22	538.30	536.62	495.13
40 OTHER GROUPS (109)	1235.48	+0.7	10.14	5.19	12.15	23.73	1227.06	1219.39	1226.64	1210.20
41 Business Services (12)	1283.72	+0.7	8.93	5.08	13.67	29.13	1274.21	1267.41	1271.62	0.00
42 Chemicals (21)	1406.81	+0.9	8.01	5.12	14.10	32.92	1394.60	1387.49	1398.89	1304.01
43 Conglomerates (10)	1434.07	+0.8	10.63	7.24	11.36	31.93	1422.24	1411.83	1423.80	1661.67
44 Transport (13)	2170.85	+1.2	8.71	4.91	14.23	48.98	2144.06	2135.63	2152.84	2344.97
45 Electricity (16)	1202.74	+0.2	14.36	5.40	8.90	18.41	1200.77	1214.71	1204.70	0.00
46 Telephone Networks(4)	1467.36	+0.6	10.11	4.15	12.94	5.58	1458.85	1443.51	1463.62	1267.07
47 Water(10)	2308.94	+0.9	17.89	6.67	6.18	118.37	2287.86	2261.79	2280.67	1924.34
48 Miscellaneous (23)	2020.84	+0.6	5.99	4.78	21.66	47.89	2009.54	1982.04	1977.44	1845.08
49 INDUSTRIAL GROUP (480)	1248.83	+0.9	9.10	4.57	13.53	24.03	1237.83	1226.36	1230.51	1200.55
51 Oil & Gas (20)	2469.92	+0.9	10.98	5.54	11.98	50.59	2447.29	2415.23	2417.25	2366.96
59 500 SHARE INDEX (500)	1351.89	+0.9	9.35	4.69	13.31	26.28	1339.93	1326.84	1330.89	1298.45
61 FINANCIAL GROUP (94)	795.54	+1.1	–	5.96	–	20.81	787.08	773.85	781.73	819.08
62 Banks (9)	916.45	+2.2	6.54	6.04	23.14	22.63	896.34	869.32	882.34	877.85
65 Insurance (Life) (7)	1490.43	+0.8	–	5.55	–	41.64	1479.09	1458.56	1471.52	1491.52
66 Insurance (Composite) (6)	663.67	+0.3	–	6.60	–	20.23	661.58	656.26	663.58	710.33
67 Insurance (Brokers) (8)	1151.01	+0.3	6.78	5.89	19.12	30.61	1147.58	1140.30	1160.51	978.89
68 Merchant Banks (7)	421.73	+0.9	–	4.97	–	11.00	417.94	416.81	417.29	442.08
69 Property (37)	886.26	-0.6	6.31	5.27	22.74	19.84	891.19	887.25	886.37	1101.77
70 Other Financial (20)	258.01	+0.3	11.11	6.99	11.26	7.80	257.28	257.76	258.51	290.53
71 Investment Trusts (70)	1211.79	+0.8	–	3.49	–	19.41	1202.77	1195.98	1196.10	1233.64
99 ALL-SHARE INDEX (664)	1217.40	+0.9	–	4.83	–	24.65	1206.38	1193.62	1198.28	1182.81

	Index No.	Day's Change	Day's High (a)	Day's Low (b)	Jul 15	Jul 12	Jul 11	Jul 10	Jul 9	Year ago
FT-SE 100 SHARE INDEX‡	2556.8	+24.3	2561.2	2543.3	2532.5	2497.4	2510.5	2508.4	2487.9	2415.0

FIXED INTEREST

PRICE INDICES	Tue Jul 16	Day's change %	Mon Jul 15	Accrued interest	xd adj. 1991 to date
British Government					
1 Up to 5 years (29)	120.91	+0.06	121.09	1.64	6.71
2 5-15 years (27)	131.61	+0.03	131.57	2.50	7.10
3 Over 15 years (9)	138.95	+0.13	138.77	2.57	6.44
4 Irredeemables (6)	152.23	+0.19	151.94	1.85	7.34
5 All stocks (71)	130.45	+0.06	130.48	2.21	7.02
Index-Linked					
6 Up to 5 years (1)	159.45	+0.06	159.36	0.58	2.72
7 Over 5 years (10)	144.84	+0.16	144.60	0.69	2.45
8 All stocks (11)	145.82	+0.16	145.59	0.69	2.46
9 Debs & Loans (56)	109.46	+0.17	109.28	2.54	5.33

AVERAGE GROSS REDEMPTION YIELDS		Tue Jul 16	Mon Jul 15	Year ago (approx.)
British Government				
1 Low	5 years	9.04	9.02	10.74
2 Coupons	15 years	9.87	9.88	10.73
3 (0%-7¾%)	20 years	9.87	9.88	10.73
4 Medium	5 years	10.26	10.27	12.01
5 Coupons	15 years	10.08	10.08	11.20
6 (8%-10¾%)	20 years	10.01	10.02	10.87
7 High	5 years	10.44	10.45	12.12
8 Coupons	15 years	10.21	10.21	11.44
9 (11%-)	20 years	10.10	10.10	11.08
10 Irredeemables	†	10.06	10.08	10.80
Index-Linked				
11 Inflation rate 5%	Up to 5yrs.	4.47	4.48	5.38
12 Inflation rate 5%	Over 5 yrs.	4.38	4.39	4.31
13 Inflation rate 10%	Up to 5 yrs.	3.47	3.48	4.19
14 Inflation rate 10%	Over 5 yrs.	4.18	4.19	4.11
15 Debs &	5 years	11.95	11.95	13.95
16 Loans	15 years	11.73	11.74	12.80
17	25 years	11.51	11.53	12.53

‡Opening index 2543.3; 9 am 2561.2; 10 am 2558.6; 11 am 2557.4; Noon 2558.0; 1 pm 2556.4; 2 pm 2556.8; 2.30 pm 2557.4; 3 pm 2554.0; 4.10 pm 2555.4; (a) 9.00am (b) 8.30am † Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A list of constituents is available from the Publishers, The Financial Times, Number One, Southwark Bridge, London SE1 9HL. The FT-ACTUARIES SHARE INDICES SERVICE covers a range of electronic and paper-based products relating to these indices. These are available by subscription from FINSTAT, Ibex House, 42-47 Minories, London EC3N 1DY. Tel: 071-702 0991.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	49	13	21
Corporations, Dominion and Foreign Bonds	5	2	13
Industrials	393	189	934
Financial and Properties	184	100	456
Oils	21	24	45
Plantations	0	0	10
Mines	18	40	103
Others	40	48	62
Totals	710	416	1,644

LONDON RECENT ISSUES

EQUITIES

Issue Price	Am't Paid up	Latest Renunc. Date	1991 High	1991 Low	Stock	Closing Price	+or -	Net. Div	Times Cov'd	Gross Yield	P/E Ratio
§100	F.P.	–	107	101	Abtrust Preferred Inc.Tst.	103	+1	N12.32	–	16.0	–
§102	F.P.	–	108¼	104	Do. Zero Div. Prf.	108½	+½	–	–	–	–
–	F.P.	–	41	10	Aegis Warrants 5p	41		–	–	–	–
♦	F.P.	–	185	185	Brockhampton 10p	185		–	–	–	–
♦	F.P.	–	33	33	Do. A Warrants 10p	33		–	–	–	–
♦	F.P.	–	145	140	Do. Non/Vtg. A 10p	145		–	–	–	–
†	F.P.	–	106	105	Capital Ventures 1p	106		–	–	–	–
100	F.P.	–	102	95½	City Merchants High Yld	96		N7.5	–	10.4	–
225	F.P.	–	229	225	Eurocamp 5p	227		R8.5	2.5	5.0	10.9
–	F.P.	–	518	510	Fleming Emrg. Mkts.	510		–	–	–	–
–	F.P.	–	½	¼	Gaelic Res. Wrnts.	¼	–¼	–	–	–	–
Ir230	F.P.	–	245	205	Greencore Ir£1	210		u06%	5.9	1.9	8.9
385	F.P.	–	335	272	Manchester United 10p	286		–	–	–	–
125	F.P.	–	127	92	Mirror Grp. Newspapers	92	–3	R6.55	1.7	9.5	8.3
100	F.P.	–	113	100	Moorgate Smaller Co's.	105		M4.13	–	5.2	–
35	F.P.	–	39	36	Do. Warrants	36		–	–	–	–
240	100	–	124½	109½	Scot Hydro-Elect. 50p	109½	–½	R9.13	1.9	4.9	13.3
240	100	–	119½	101	Scottish Power 50p	101½	–½	L9.2	2.1	5.1	10.8

FIXED INTEREST STOCKS

Issue Price £	Amount Paid up	Latest Renunc. Date	1991 High	1991 Low	Stock	Closing Price £	+ or -
♦	F.P.	-	107p	106p	Brockhampton N/V 9½pc Rd Prf 1996 £1	106p	
100	F.P.	-	110¼	98¾	Burmah Cap (Jersey) 9½pc Cnv Bds 2006	100¾	+½
100	F.P.	-	101¼	96½	EE Finance 8¼pc Gtd. Exch. Bds. 2006	101¼	+¼
Ir110p	Nil	-	22½p	18p	Fyffes 8.25p (Net) Cnv Cm Prf Ir£1	22½p	+2½
100p	F.P.	-	104½p	99½p	Queens Moat Houses 7½pc Cr Rd Pf	99½p	
100	F.P.	-	103¾	96½	RMC Capital 8¾pc Cnv. Bds. 2006	98½	+½
100	F.P.	-	103½	96¼	Tarmac 9½pc Cnv. Cap. Bds. 2006	97¾	+½

RIGHTS OFFERS

Issue Price p	Amount Paid up	Latest Renunc. Date	1991 High	1991 Low	Stock	Closing Price p	+ or -
83	Nil	–	9pm	8pm	Amber Day 2½p	8½pm	
155	Nil	–	30pm	9pm	BPB Industries 50p	28pm	+2
140	Nil	–	15pm	14pm	British Fittings 20p	15pm	
Ir25p	Nil	–	¼pm	¼pm	Buda Resources Ir25p	¼pm	
2½	Nil	–	2pm	½pm	Carenidale 1p	1pm	
88	Nil	–	4pm	3pm	Countryside Props.	3pm	
108	Nil	–	7pm	4pm	Dart Group 10p	5pm	–½
31	Nil	–	2½pm	1½pm	Ex-Lands 10p	1½pm	
50	Nil	–	23pm	2pm	Gardner (D.C.) 5p	2pm	–3
71	Nil	–	7pm	2pm	Regalian Properties	2pm	
312	Nil	–	55pm	39pm	Sainsbury (J)	55pm	+6
22	Nil	–	¼pm	¼pm	Tie Rack 5p	¼pm	

a Annualised dividend. b Figures based on prospectus estimates. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. g Assumed dividend and yield. q Earnings based on preliminary figures. u Forecast or estimated annualised dividend rate, cover based on previous year's earnings. F Dividend and yield based on prospectus or other official estimates for 1990-91. H Dividend and yield based on prospectus or other official estimates for 1991. L Estimated annualised dividend, cover and p/e based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1991-92. N Dividend and yield based on prospectus or other official estimates for 1992. Q Gross. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma figures. ♦ Offered to holders of ordinary shares as a "rights". † Introduction. § Placing price. †† Reintroduction. ‡ Unlisted securities market. ♦ Issued in connection with reorganisation, merger or takeover. pm Price at a premium.

TRADITIONAL OPTIONS

● First Dealings July 8
● Last Dealings July 19
● Last Declarations Oct. 10
● For settlement Oct. 21

For rate indications see end of London Share Service

Calls in Amstrad, Beazer, Brown & Jackson and Control Sec. Puts in Barrett (H) and Control Sec. Put and call in Doctus.

LONDON TRADED OPTIONS

Option		Calls Jul	Calls Oct	Calls Jan	Puts Jul	Puts Oct	Puts Jan
Alld Lyons (*557)	500	57½	74	83½	½	4½	9
Unilever (*751)	750	10	39½	57½	8½	21	28½
[illegible]							
Sainsbury (*367)	356	11½	25	35	2	8	11½
	386	½	10	19	20½	23½	26½
Shell Trans. (*530)	500	30½	44½	52½	½	9½	13½
	550	1¾	15	25½	20½	32½	37½
Storehouse (*108)	100	7½	12½	15½	1	3¼	5
	110	1½	7¼	10	4	7¼	10
Trafalgar (*245)	240	5	22	27½	2½	13½	23
	260	1½	12½	17½	16	24	34
Utd. Biscuits (*394)	360	33	43	51	½	5	8½
	390	7½	22	31	4	16½	20

Option		Calls Jul	Calls Oct	Calls Jan	Puts Jul	Puts Oct	Puts Jan
Amstrad (*49)	45	7	8¾	10¼	3	4½	5¼
	50	3¼	5¾	8¼	5	6¾	7½
Barclays (*462)	460	16½	32	41½	20	26½	31½
	500	6	16	–	49½	51½	–
Blue Circle (*252)	240	20½	27½	34½	8	11½	13½
	260	10	17½	24	18	21	23½
British Gas (*263)	240	23	26	28½	4	6	8
	260	7¼	14	17	12½	13½	16½
Dixons (*214)	200	19½	25	32	4	7½	9½
	220	8	15½	20½	11½	14½	17

Option		Calls Sep	Calls Dec	Calls Mar	Puts Sep	Puts Dec	Puts Mar
Eurotunnel (*460)	460	29	46½	61½	20	28½	35½
	500	11½	28½	41½	46½	51½	56½
[illegible]							

FT-SE INDEX PUTS

Jul	1	1½	2½	4½	9½	24	53½	97½
Aug	4	6	10½	15	25	43	69½	105
Sep	7½	11½	16½	24	36½	53½	79½	112
Oct	12½	18½	25½	35½	48½	67½	91½	–
Dec †	22½	–	38	–	64½	–	107	–
Jan †	42½	–	60	–	95	–	140	–

July 16 Total Contracts 35,097 Calls 24,812 Puts 10,285 FT-SE Index Calls 6,482 Puts 4,140 Euro FT-SE Calls 1,518 Puts 211 *Underlying security price. † Long dated expiry months Premiums shown are based on middle prices.

UK COMPANY NEWS

Margins under pressure as Matthew Clark falls 41%

By Philip Rawstorne

MATTHEW CLARK, the wines and sherries group, yesterday reported a 41 per cent fall in pre-tax profits from last year's record £9.51m to £5.62m.

The group's operations, which have been substantially restructured, were hit by recession in the UK, which squeezed margins, and losses on its Australian business.

Turnover, net of duty, for the year to April 30, increased by 6 per cent to £49.4m (£46.8m) but operating profit declined from £6.71m to £5.3m.

Mr Peter Aikens, who took over as chief executive 14 months ago, said that the reorganisation of the company which followed the loss of the Martell and Irish Distillers distribution agency, was now virtually complete.

Restructuring costs, including 80 redundancies, amounted to £2.18m, but the sale of investments and two non-core businesses – Sealark Transport and Malcolm Cowen – reduced exceptional costs to a net £111,000.

IH Baker, the Australian distributor which incurred a trading loss of some £300,000 during the year, is to be sold as operations are focused on manufacturing, marketing, and selling drinks in the UK.

During the year, minority interests in JE Mather, the Stone's ginger wine and British sherry producer, were acquired for £12m "giving us full control of our manufacturing base," Mr Aikens said.

Earnings per share fell 17 per cent to 30.4p (36.9p) but the final dividend is increased to 8.25p making a total for the year of 14p (13.5p).

Colin Beere

Francis Gordon Clark (left) chairman, and Peter Aikens: reorganisation of company now virtually complete

● COMMENT

After a year of radical reorganisation, the group is now strategically focused on building its business in the UK drinks industry. Costs have been reduced by £750,000 a year and little more can be squeezed out, given the need for a strong sales force and marketing budget. The new management team must now seek to increase profits by acquisition and organic growth. There will be about £6m cash in the bank this year but resources are too slender to make a big splash and the margin for mistakes is small. A bottled water brand seems the best first bet. Opportunities are being sought in table wines; and with spare capacity at JE Mather, some extensions of the Stone's brand seem likely. Analysts like the new team's air of realism and are optimistic about progress this year, forecasting pre-tax profits of around £6.1m. Earnings per share should jump to 45p, and the stock looks good value on a prospective p/e of 8.8.

Eurotherm declines to £4.6m

By Clare Pearson

IN DETERIORATING trading conditions Eurotherm International, the control equipment and systems group, suffered a 28 per cent decline to £4.57m in interim profits.

The outcome for the six months to end-April – £4.57m against £6.39m – was on turnover of £77.4m (£80.1m). Earnings per share were down at 6.7p (9.75p) but the interim dividend is held at 2.5p.

Mr Jack Leonard, chairman, said Eurotherm, which sells mainly to the plastics, chemicals, manmade fibres and metals industries, had been hit "across the board" by the recession.

He said there were no signs of any recovery yet in Europe, the US, or elsewhere. However, orders received in June and the backlog at the end of that month were both slightly ahead of last year.

Turnover was only 3 per cent lower, showing that new customers were being won as existing ones cut back capital expenditure and inventories.

Gross margins, at 47 per cent, were also holding up compared with the end of last year, but were 3 per cent down on the 1990 interim period.

There was a 5 per cent cut in the workforce during the period, with UK businesses principally affected.

Mr Claes Hultman recently joined the board as managing director in succession to Mr John Shackleton, who had been with the company for 23 years. Mr Hultman was previously vice president for Europe of Fisher Controls, a subsidiary of Monsanto, the US chemicals company.

Adverse currency movements reduced sales by £4.6m. By geographical area, sales in the UK fell to £20.9m (£23.7m) but, boosted by acquisitions, rose to £19.5m (£15.8m) in North America. In continental Europe they were stable at £29.6m (£29.2m).

● COMMENT

Eurotherm has 26 years of experience in the industrial controls business so should know how to react to changing economic circumstances, although it has proved over-optimistic in the past. That is not something of which it can be accused at the moment, however: Mr Leonard is being extremely cautious about prospects for a pick up in business, beyond making the observation that Eurotherm's type of customers are not likely to start buying again until an economic recovery is well advanced. But the eventual upturn in demand, and rebound in profits, should be rapid. This year, however, the company may make no more than about £10m pre-tax profits, against £13.2m last time. That puts the shares on a prospective p/e of 18, where they are well up with events and likely to be dull performers for the moment. On the management front, the arrival of Mr Hultman, with his international commercial experience, spruces up the board's slightly dusty image.

NEWS DIGEST

Multitone advances to £1.42m

SIGNIFICANT PROGRESS was made by Multitone Electronics, the maker of specialised radio communication systems, in the year to April 30, as profits surged and the balance sheet was strengthened.

Pre-tax profit rose 82 per cent to £1.42m (£779,000). Although trading profits were £377,000 behind, there were no exceptional costs this time (£629,000) and interest charges were reduced to £310,000 (£700,000).

Mr Ian Karten, chairman, said the result was achieved in the face of difficult conditions in the first half and worse in the second, with the notable exception of Germany.

The economic climate continued to be unhelpful, but he was confident of further progress as new products were being favourably received and the order book was £1.5m up on the opening figure last year. Borrowings had been virtually eliminated.

Turnover came to £21.2m (£22.1m) with overseas accounting for £13.4m (£14.6m). Earnings were 5.75p (2.86p) and the dividend is doubled to 2p with a final of 1.25p.

Batleys profit surges to £7m

Batleys, the privately-owned chain of cash and carry wholesalers based in Huddersfield, lifted pre-tax profit from £4.25m to £7m in the year to April 27 1991.

Turnover rose to £426m (£379m) and operating profit to £7.83m (£5.41m). Interest charges were cut to £829,000 (£1.16m).

Earnings were 30.85p (17.75p).

John Wood moves into net loss

John D Wood, the estate agent, moved into a net loss for the year ended April 30 and is passing its final dividend.

Difficult trading conditions continued into the current year, directors stated, but they felt action taken had put the group in an "excellent position" to capitalise on the market when it improved "against somewhat depleted competition."

Turnover was held at £5.17m, but pre-tax profit fell from £425,000 to £15,000 and the net result was a loss of £25,000 (profit £246,000).

Losses per share were 0.3p (earnings 3.2p). The interim dividend of 1.5p compared with the previous total of 2.2p.

During the year Wood increased its market share, took on ten more staff, opened a new department in Curzon Street, London, to win future development work, and opened its ninth London office in Wimbledon.

The country and agricultural departments suffered from the slow market but continued to perform satisfactorily.

Electron House falls to £970,000

A decline at its Bytech Peripherals offshoot was the main reason for a fall in annual pre-tax profits at Electron House from £4.03m to £968,000.

A rationalisation programme was undertaken and £600,000 of non-recurring costs were taken above the line.

Turnover for this electronic component distributor fell from £130m to £127m in the year to end-May.

Earnings per share came out at 1.65p (11.97p) or 2.44p (11.76p) fully diluted.

A final dividend of 1.25p is recommended for a reduced total of 2.25p (5.85p).

For the present year the company expected that conditions in electronic components and computer services would not deteriorate but maintaining volumes and increasing margins would be difficult.

Net assets static at Fleming Overseas

Net asset value of The Fleming Overseas Investment Trust was virtually unchanged over the 12 months to June 30 1991.

At 239.7p per share, the figure compared with 238.7p a year earlier.

Net revenue fell slightly to £5.12m (£5.31m) while earnings per share worked through at 3.83p (3.98p).

A second interim of 2.5p, in lieu of a final, was paid in June, for an unchanged total of 4p.

Nobo 7% ahead in 'difficult conditions'

In spite of "increasingly difficult trading conditions" Nobo Group, the office furniture and business products company, lifted pre-tax profits by 7 per cent, from £1.92m to £2.05m, in the year to April 30.

Earnings per share increased to 12.35p (11.65p) and a final dividend of 4.18p is proposed for an unchanged 6.6p total.

Mr Reginald Barr and Mr Peter Kent, joint chairmen, said all group companies had contributed to the increase.

Although turnover fell by £1m to to £24.9m, operating profits came through at £3.17m (£2.69m). The taxable result was after increased interest costs of £1.02m (£771,000) and an exceptional £102,000, representing compensation for the loss of office of a director of a subsidiary and closure costs of Colt Staplers.

Buying back bushes to bolster the business

Andrew Baxter on the novel solution chosen by Fenner to win back lost customers

FEW British engineering companies forecast the suddenness with which the recession would hit them in the final quarter of last year, but for Fenner the timing has been particularly unfortunate.

The medium-sized manufacturing and distribution concern with interests in power transmission equipment, industrial conveyor belts, and fluid power has a financial year beginning on September 1, and is taking the full force of the recession this year.

Back in October, Fenner had announced a 21 per cent rise in annual profits and Mr Peter Barker, the chairman, had expressed hope for "continued progress" in the year ahead. Yet, six months later, Fenner reported first-half pre-tax profits nearly halved to £3.7m.

But Mr Barker and his team, led by Mr Tom Brown, managing director, are not despondent. There is even a quiet sense of excitement at Fenner's Humberside headquarters about an overseas sourcing deal which could ensure Fenner's continued world leadership in a market which it created 40 years ago.

In a transaction announced with little fanfare along with the interim results, Fenner has taken a 70 per cent stake in Contimach, a Hong Kong-based group which will become the UK company's main supplier of taper-lock bushes and other small related components. The bush is a deceptively simple device for fixing components to shafts.

Over the next two years Fenner's stake in Contimach will rise to 100 per cent. Although its investment so far has been just £8.5m, including working capital, Mr Barker describes the deal as "a major move."

The takeover might look like a quick-fix solution to the business downturn – Fenner's UK manufacture of engineered power transmission parts was, after all, the activity most seriously affected in the first half of the current year.

Peter Barker: describes the deal as "a major move"

In fact the Contimach link has been in gestation for about five years, illustrating the hurdles for UK engineering companies as changing market conditions prompt a shift from an in-house manufacturing philosophy to a more flexible "make or buy" decision process.

At Fenner the switch evolved in the mid-1980s, and the make-or-buy dilemma comes up constantly, says Mr Barker, particularly when manufacturing equipment needs replacing.

Competitive pressures have forced Fenner to reduce the range of manufacturing in the UK, says Mr Barker, concentrating investment on areas with high added value.

In power transmission, this has led to the closure of Fenner's high-volume bush plant in Scotland with the loss of 75 jobs. Conversely, in Hull, space created by a move to just-in-time stock control is being prepared for additional low-volume production this autumn.

Taper-lock bushes are accepted as the most cost-effective way to fit parts to a shaft, but in the 1960s and 1970s Fenner had an uphill struggle penetrating western Europe, especially Germany.

When, eventually, the Europeans gave in, they largely sourced from Fenner to save heavy manufacturing investment. The UK company's competitive position, meanwhile, was bolstered by recycling machine scrap from its plants into continuous cast bars which could be used as feedstock for components.

But one-by-one, in the 1980s, Fenner's big continental customers began withdrawing their business, tempted by low-cost sourcing in the Far East.

At first, the switch put rivals in trouble technically, says Mr Barker, but gradually the quality of Far Eastern bushes improved. "People who were buying substantial volumes from us have moved permanently, so the viability of our own plants comes into question," says Mr Barker. Fenner's UK production has fallen about 40 per cent from its heyday in the 1980s.

At the same time, terms of trade have moved against UK production. The grey cast iron from which the bushes are made is no longer an indigenous product, says Mr Tom Murray, director of Fenner's power transmission division. In the Far East they can now be produced for less than the raw material costs in the UK.

In drawing up a response to these trends, Fenner had taken note of the progress of Contimach, which had been set up in 1980 under a British managing director, Mr Bill Cody, but with the encouragement of Fenner's continental rivals.

Along with its Far Eastern counterparts, Contimach had suffered some false starts before building up product quality through ever-tighter control of a network of mainland Chinese subcontractors.

Mr Barker had decided by 1987 that Contimach was "the one for us." But it has taken a long, painstaking courtship to produce this year's deal, for two main reasons.

First, ensuring product quality has required a lot of work for both Fenner and Contimach, which is building a big new factory and warehouse at Don Guang in China to expand production and ensure quality standards before shipping to customers.

Secondly, Fenner has been anxious to ensure continuity of supply. It did not want an uneconomic halfway house where the UK production line was kept open, and therefore felt it necessary to buy Contimach rather than establish a joint venture.

Contimach has begun to supply Fenner with taper-lock bushes, and will start sending small pulleys next month. Production of low-volume large pulleys and bushes will continue at Hull.

For Fenner, the deal solves a difficult problem. Mr Murray says there is a substantial cost advantage taking taper-lock bushes from Contimach, and adds: "If we had not gone ahead with the deal, in two years time we would have been out of power transmission engineering manufacture."

As for the financial benefits, Mr Brown says these will be significant in Fenner's next fiscal year. Contimach's sales next year are expected to be about £15m, approaching 15 per cent of Fenner's total power transmission sales.

But the effect may not be as foreseen by Fenner before the recession: what would have been a useful, and measurable, fillip to profit margins will perhaps be offset by the downturn elsewhere.

There are benefits for Contimach, too. Fenner's backing will help it move towards total quality control of its Chinese subcontractors, and spur its sales efforts to normally cautious US customers. Contimach's European and US subsidiaries are being integrated with Fenner's global operations to boost market penetration.

And Contimach gets the kudos of supplying the pioneer of a drive shaft accessory whose high-volume UK production run has come to the end of the road.

UK COMPANY NEWS

Lower property profits hit Triplex

By Jane Fuller

SHARPLY REDUCED property profits undermined the pre-tax performance of Triplex Lloyd, the industrial engineering group.

The taxable figure for the year to March 31 fell 39 per cent, from £12.3m to £7.57m, after property gains of less than a tenth of the previous year's £4.94m.

Turnover advanced to £200.3m (£188.8m), although this was distorted by acquisitions and disposals, the most significant being the £13m sale of Lee Beesley Deritend, the electrical engineering division.

Overseas sales accounted for 34 per cent of the total.

In the continuing businesses, operating profit inched ahead to £9.18m (£8.99m) on turnover of £169.3m (£129.5m).

Interest payments fell by £1m to £3.4m and net debt was reduced from £18m to £13.8m, giving gearing of 38 per cent (50 per cent).

Triplex's statement was largely prepared by its late chairman Mr Jim Doel before his death 10 days ago. He said: "Three themes have dominated your board's strategic thinking during the year: the requirement to compete in international markets, the need to continue to raise the performance and calibre of the people we employ – the intellectual capital of our businesses – and managing the balance sheet through the recession."

He has been replaced by Mr Colin Cooke, formerly non-executive deputy chairman and another "sorter out of foundries". He said the group was maintaining its profits from trading operations in spite of difficult conditions in both the UK and North America.

Recession reduced operating profit in the automotive and engineering division to £2.81m (£3.14m) and in building products to £2.36m (£2.52m).

The group's UK workforce was cut by 13 per cent – nearly 600 jobs.

Profit improved to £2.78m (£2.45m) in Deritend International, the power division. Mr John Foley, finance director, said the Sterling investment casting business, bought for £1 in March last year, had been turned round.

North American profit rose to £1.24m (£874,000).

Earnings per share fell to 12.7p (20.4p).

A maintained final dividend of 4.5p makes a same-again total of 7p.

Lydia van der Meer

John Foley, (left) group finance director and Colin Cooke: maintained trading profits in spite of difficult conditions in both the UK and North America

● COMMENT

Further advances in the power division and in North America, both helped by rationalised acquisitions, should help to cushion an even tougher year for the automotive and building products businesses. Although the precision components purchase from Parkfield's administrator has temporarily increased gearing, the balance sheet has been strengthened by disposals. Lower capital spending, after £25m in three years, and further sales should restore the downward debt trend, especially with the potential for property gains from the 90-acre Park Lane development by junction 9 of the M6. Allowing £1m for property, pre-tax profit is forecast to approach £8m this year, a prospective multiple of 9.6. Bearing in mind the near 8 per cent yield and a good management legacy from Mr Doel, this looks quite attractive, although nervousness about the motor-related business may hold the shares back in the short term.

Argyll to pursue Guinness claim

By John Thornhill

MR ALISTAIR Grant, chairman and chief executive of Argyll Group, told shareholders that it was still the food retailing company's intention to pursue legal proceedings against Guinness to recover the substantial losses resulting from its failure to acquire Distillers.

Argyll has until next January to issue a writ for damages before the statute of limitations expires, six years after the contested takeover bid for the Scottish drinks company.

Mr Grant said: "We have the highest regard for the present management of Guinness and continue to trade vigorously with them." "Although we are planning to take legal action we are not taking a dog-in-the manger attitude towards the company," he added. "It seems to us to have changed in the same way that Greece changed after the colonels were deposed."

Argyll's immediate claim would be for the £55m costs of the failed acquisition. But it could also seek damages for being deprived of the uplift in value that resulted from the loss of Distillers. Such a claim could run into hundreds of millions of pounds.

Mr Grant told the annual meeting that Argyll had seen a strong first quarter's trading with pleasing sales volume gains and a very satisfactory profit performance.

Argyll's shares rose 5p to 307p.

Birse advances 5% to £14m despite provisions of £3.8m

By Andrew Taylor, Construction Correspondent

BIRSE GROUP, the civil engineering and building group, in which Bilfinger & Berger, a large German construction company, has a 15 per cent stake, increased pre-tax profits by 5 per cent to £14.3m during the 12 months to end-April.

This was despite making provisions of £3.8m to cover bad debts and falling residential and commercial property prices.

Earnings per share dipped slightly from 15.3p to 14.3p resulting from a 13 per cent rise in the number of shares in issue. A proposed final dividend of 3.85p makes a total of 5.5p (5p) for the year.

It is the second year in succession that Birse has announced a rise in profits since it came to the market in September 1989. The shares rose 1p to 167p, against an offer price of 120p.

Mr Peter Birse, chairman and chief executive, said the performance was encouraging when other construction companies were announcing profit falls.

Since the group was floated it had nearly doubled in size in terms of turnover and its capacity to take on new work.

In spite of a difficult market, the construction order book by the end of last month had risen to £280m, compared with £245m a year ago.

However Mr Birse warned that construction margins were coming under increasing pressure as private sector building work had fallen sharply. There had been a knock-on effect on civil engineering prices which would make it more difficult to sustain profits.

Contracting accounted for about 80 per cent of profits and 90 per cent of turnover last year. The group also benefited from a strong cash position with £38m on deposit at the end of April.

Interest received more than doubled from £1.48m to £3.38m.

This helped offset a large part of the property and bad debt provisions.

Plant hire profits fell by 34 per cent last year. Housebuilding, after provisions, made a loss of more than £2.5m. Commercial property also made a small loss.

● COMMENT

Birse deserves its reputation as a quality civil engineer. Its strengths in road building and water has meant that it has managed to offset the worst effects of the private sector building collapse. The low level of housebuilding – it built only 60 houses last year – has also been a strength. The lack of housebuilding, however, could work against the group when, or if, this market starts to recover. Contracting margins will come under increased pressure this year. On the other hand provisions are unlikely to be repeated. Brokers are forecasting annual profits of between £11m to £13.5m which would represent another sound performance. The shares, however, appear fairly valued given the group's low exposure to a possible housing recovery.

Oceana raises questions over Etam's trebled profits forecast

By Jane Fuller

OCEANA Investment Corporation, the South African-controlled concern bidding for Etam, has questioned the fashion chain's defence document contention that pre-tax profit could more than treble from its expanded floorspace.

Mr David Hudson, a director of Campbell Lutyens Hudson, Oceana's merchant bank, said it was fanciful of Etam to apply the £32 pre-tax profit per sq ft made in 1988-89 to the present total of 853,000 sq ft.

This had given a projected profit of £27.3m and p/e of 7.

He said too many factors intervened between sales per sq ft and pre-tax profit to make it a meaningful extrapolation, for instance, both the retailing climate and Etam's cost-base had changed.

Etam had, in any case, given no timescale for this increase from last year's pre-tax profit of £8.5m, earnings per share of 7.51p.

Oceana is bidding 185p per share for the 70.8 per cent of Etam that it does not already own.

This values the group at £121m. Oceana is controlled by the Lewis family which runs a large South African retailing business, including 270 Foschini women's fashion shops.

Etam's defence document said nearly 34 per cent of its shares were in safe hands, including Gartmore Investment with a 12.7 per cent stake. Mr Vivian Bazalgette, a director responsible for UK pension funds, said he was taking a long term view. Etam had a strong management, a sound balance sheet and substantial profit potential through immature space and high operational gearing.

The closing date for Oceana's offer, which cannot be increased, is July 25.

Huntingdon issues $60m capital bonds

HIH Capital is to issue $60m (£36m) convertible capital bonds 2006, guaranteed on a subordinated basis by Huntingdon International Holdings, a provider of professional testing and consultancy services in life sciences and engineering and environmental services.

Interest rate for the bonds will be in the range of 7.25 to 7.5 per cent. The issue price is 100 per cent. The bonds can be converted into HIH Capital redeemable preference shares, which can be exchanged for Huntingdon ordinary.

Brent Walker appeal begins

By Maggie Urry

THE APPEAL by Brent Walker in its case against Grand Metropolitan, the leisure group, over its purchase of the William Hill and Mecca betting shop business, began yesterday and is expected to continue today.

The outcome is important to Brent Walker's refinancing plans, as it could be forced to make a payment to GrandMet of £50m plus interest.

Brent Walker has so far not paid the final £50m instalment of the £685m purchase price agreed in autumn 1989. The instalment was due last September, and in February the High Court agreed with GrandMet that Brent Walker should pay the money and that interest would accrue.

But Brent Walker argues that William Hill's trading profits in 1989 were sufficiently below the £55m warranted by GrandMet to require a refund of part of the purchase price.

Brent Walker has claimed a £160m refund and the dispute over the purchase price is to be settled through arbitration. Brent Walker said it should not have to pay the £50m.

Under the formula agreed at the time of the purchase, if William Hill's profits in 1989 did not reach £51m, then a refund would be set on the basis of 12.82 times the shortfall below £55m. Any reduction would therefore be at least £50m.

Brent Walker's counsel argued that it was "apparent to everybody" that the profits were going to be below £51m.

Busy second quarter for rights issues

By David Owen

The second quarter of the year was an exceptionally busy period for rights issues. UK companies tapped shareholders for equity to strengthen their balance-sheets as the credit squeeze tightened and economic conditions deteriorated.

A total of £3.1bn was raised by 68 companies, according to figures released by the Stock Exchange yesterday. This made it the busiest period since the third quarter of 1987 – immediately prior to the stock market crash – when 87 rights issues raised £5.1bn.

The first half total of £5bn, raised by 87 UK listed companies, exceeded the aggregate for the whole of 1990. Three companies – Tesco, Bass, and Redland – accounted for £1.44bn or 28.8 per cent of the overall figure.

By sector, contracting and construction groups have executed the most rights issues over the last two years with 20, followed by hotels and leisure with 16 and general engineering with 14.

Issues conducted by food retailers have the highest aggregate value at £1.21bn, however. This is followed by transport, where £1.1bn has been raised from just three issues, including £947m by Eurotunnel/Eurotunnel SA in November 1990.

BET £300m refinancing lengthens debt maturities

By David Owen

BET, the business services conglomerate, is putting in place a £300m refinancing that will replace existing bilateral credit lines with a five-year revolving facility.

It is a two-tranche facility on offer in the market at present, with minimum commitments of £10m being sought from individual banks.

The first £100m tranche will be used to fund the group's ongoing core borrowing requirements, with the balance used for seasonal peak financing needs.

Principal attractions to the group of the refinancing – which is being arranged by Midland Montagu – are that it will lengthen debt maturities and consolidate its borrowing needs into one facility. Pricing will be "not dissimilar" to existing arrangements, according to one banker familiar with the terms.

BET's year-end debt – excluding the $500m (£300m) of US auction market preference shares – weighed in at £425m, putting gearing at nearly 86 per cent.

The sale of Biffa, the waste disposal business, to Severn Trent for £212m will have trimmed borrowings to £213m.

Heiton hit by construction slump

Heiton Holdings, the Dublin-based steel stockholder and builders' merchant, blamed the UK recession and the construction downturn in the Irish Republic for a sharp setback in annual profits.

Turnover advanced from I£55.2m to I£62.1m (£56.4m), but the taxable outcome dropped from I£2.81m to I£1.77m, reflecting increased losses in UK operations of I£514,000 (I£349,000). A restructuring of activities in the UK is shown as an extraordinary provision of I£800,000. Earnings per share fell from 9.09p to 3.57p, but the final dividend is held at 1.35p for a same-again total of 2p.

API moves to strengthen its board

API Group, the packaging combine which is fighting off an unwelcome bid from the rival NMC Group, yesterday moved to counter criticisms that it lacked sufficient board strength by appointing a temporary managing director, writes John Thornhill.

He is Mr Eric Holroyd, 65, a former director of Bowater Packaging, who also worked briefly at HunterPrint, the struggling printing group.

Mr Holroyd will join Mr Dennis Holt as the only other executive director. The group lost its previous managing director, Mr Adrian Missenden, in March following differences over strategy.

Mr Peter Armitage, chairman, said Mr Holroyd's appointment would give the group time to find the right candidate to fill the position of managing director on a longer-term basis once "the cheap and unwelcome offer from NMC is out of the way".

Executex Clothes and Lawtex in receivership

By Roland Rudd

EXECUTEX CLOTHES, the Leeds-based manufacturer and retailer of tailored clothing, and its subsidiary, Sumrie Clothes, have gone into receivership.

Grant Thornton was appointed receiver after the group recently lost about 50 per cent of its sales.

It recently returned to private ownership with an agreed £859,000 bid from Premierflag.

In 1989 the company incurred a £1.1m pre-tax loss compared with profits of £442,700 in the previous year.

Mr Peter Flesher, joint receiver, said that the directors of the company were one of several groups who had expressed interest in buying the business, which has an annual turnover of some £4m.

● Meanwhile, one of Britain's biggest manufacturers of umbrellas has gone into receivership.

Cork Gully, the insolvency arm of Coopers & Lybrand Deloitte, was appointed receiver to Lawtex, the umbrellas, babywear and leisurewear group.

It recently announced a £166,000 operating loss for the half-year to the end of December 1990.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends.

TODAY

Interims- General Consolidated Inv Trust, EFM Java Trust, Microgen, Scottish American Inv.

Finals- Bulmer (HP), Hewetson, Moorgate Inv Trust, Norbain Electronics

FUTURE DATES

Interims-

Aegis	July 30
ECC	Sept 23
Goal Petroleum	Sept 19
Plateau Mining	July 19
Simon Eng	Aug. 7
Throgmorton USM Trust	July 23

Finals-

Community Hospitals	Sept 18
Great Universal Stores	July 18
Lazard Select Inv Trust	July 28
Mleys	July 25
Wood (SW)	July 19

DIVIDENDS ANNOUNCED

		Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
Birse	fin	3.85	Oct 4	3.5	5.5	5
Clark (Matthew)	fin	8.25	Oct 8	7.75	14	13.5
Electron House	fin	1.25	Oct 31	3.1	2.25	5.85
Eurotherm Intl	int	2.5†	Oct 16	2.5	-	7.05
Heiton	fin	1.35♣	-	1.35	2	2
Multitone Elect	fin	1.25	Sept 6	1	2	1
Nobo Group	fin	4.18	Oct 1	4.18	6.6	6.6
Triplex Lloyd	fin	4.5	Sept 20	4.5	7	7
Wood (John D)	fin	nil	-	0.7	1.5	2.2

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. §USM stock. ♣Irish currency throughout.

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A FINANCIAL TIMES SERIES: Part 7

EUROPEAN FINANCE AND INVESTMENT

GERMANY

A year after monetary union, the German economy is in the midst of wrenching adjustments. The D-Mark has weakened, and the current account surplus melted. Still, capital market reforms are helping to mobilise the funds needed to rebuild the east, writes **Katharine Campbell**

Reality dispels euphoria

BY the time Germany was formally united last October, many of its new eastern citizens no longer had the heart to celebrate. The euphoria of preceding months had been dispelled by the stark economic realities of a new world, and the prospect of change filled them principally with trepidation.

The first anniversary of the introduction of the prized D-Mark into the east at the beginning of this month would seem more than to justify that instinctive *Angst*, with the woes of the east surpassing even the most dismal forecasts.

The pan-German economy is exhibiting graphically the costs of adjustment. July 1 1991 brought for the average citizen, tax surcharges, higher inflation and, in the east, a new wave of unemployment.

This leaves the country still grudgingly acknowledging the political necessity of embracing a unique opportunity, but more than a little daunted at the path of travails until east Germany emerges as Europe's fastest growing region. Lulled by the fact that the GDR had for years been paraded as the most successful eastern block economy, no-one was prepared for the degree of chaos that opened up.

If the level of social dislocation was underestimated – western bankers setting up in the east say their most successful managers come from foreign postings where they were used to operating in a strange language – so the economic diversity of the countries came as a complete shock. In an unguarded moment earlier this year central bank president Mr Karl Otto Pöhl professed monetary union had been a disaster.

West Germans, caricatured for their talents in the realm of officialdom, were taken aback at the wholesale collapse of administration across the Elbe. No-one adequately foresaw how the tangled web of property claims would impede urgently needed inward investment.

A further surprise lay in the initial rejection of eastern goods by consumers with years of deprivation to repair, which, together with the collapse of the crucial eastern block markets, helped to cut manufacturing output by two-thirds – in turn exacerbating the employment situation.

Finally, it was only the gloomy foreigners who predicted how much the enterprise might cost. This year, the overall German public sector deficit will reach DM140bn-DM160bn, about 5.5 per cent of gross national product.

This leaves two economies sending out the most diverse signals. While the eastern economy was still deflating rapidly, first quarter growth in west Germany of 4.2 per cent was even stronger than expected. Inflation, at 3.5 per cent in June, will top 4 per cent as the effects of the tax surcharges, together with hefty wage increases, in the west averaging between 6-7 per cent, feed through. Meanwhile the erstwhile current account surplus is eroding at an unprecedented rate in an industrialised economy.

The Bundesbank, which outwardly remains unflustered at what it sees as an appropriate redirection of the country's savings, is forecasting a small deficit by the end of the year, after a surplus of DM77bn last year. The D-Mark has swung from a high of DM1.45 against the dollar in mid-February to a recent low of DM1.84 as investors became unsettled with the long-awaited eastern upturn receding still further. In the first half of the year the currency dropped 16.1 per cent against the yen.

The official view from the Main is that Düsseldorf, the second financial centre, has more to worry about, with Berlin quite possibly elbowing it off that perch

An unstable external position increases vulnerability to other shocks, such as the recent constitutional court ruling that wil lead to tighter controls on collecting investment income tax. This leaves Mr Helmut Schlesinger, who succeeds Mr Pöhl as Bundesbank president in August, with a more than challenging programme. A top priority, however unpopular internationally, will be reviewing the need for moving short-term interest rates up another notch.

Against this background, resilient and flexible capital markets will be the more necessary as Germany proceeds with the task of rebuilding its own country, and, increasingly becomes the fulcrum for transfers to the rest of eastern Europe.

A notable feature of the past year has been how institutional reform in the government bond market has improved its efficiency, which in turn has been reflected in yields that, after the initial shock back in February 1990, have remained remarkably steady considering the burden of new paper.

The Bundesbank recently pointed out that net sales of all D-Mark fixed income securities last year amounted to DM220bn, almost three times as much as the previous year, and a figure that is set to climb further. This has been achieved during a period in which foreigners have only sporadically been significant buyers of Bunds.

Important changes include the move in the middle of 1990 to a part-auction system for selling new 10-year Bund issues, away from sole reliance on the consortium of banks allocated paper according to fixed quotas.

Also significant has been a pronounced effort to widen the array of instruments and range of maturities in which the government borrows. The Schuldschein (or promissory note) was resurrected as a central government borrowing vehicle. It is being used particularly heavily by entities such as the German Unity Fund and the Treuhand (the agency masterminding the sell-off of east German industry), one of its main merits being that – placed privately – large amounts can be salted away without alerting the market.

The recent move to auctioning paper in the two- to four-year maturity spectrum further complements the range of instruments. Also, the Bundesbank has increased the stock of paper it holds giving it more clout in its market-smoothing operations.

Propelled more by competition from elsewhere in Europe than by the exigencies of the east German adventure, the German stock exchanges are preparing for fundamental reform.

While formidable pressures remain to preserve the decentralised structure – eight separate markets – the big Frankfurt-based banks are successfully pushing to centralise equity trading, at least for the blue chip stocks with international appeal.

The Frankfurt Stock Exchange building, resplendent after a DM120m restoration, could soon be partially redundant as increased computerisation of trading is accepted as the way to force a consensus.

Still, the banks acknowledge that the electronic system Ibis II is technologically primitive, and are concerned that they may lose still more market share, notably London, in the time it takes to build a suitable replacement.

The insider investigation into Deutsche Bank comes at an exceptionally awkward moment when the country is trying to build its standing in the international financial community.

Meanwhile, the decision for Berlin to become the country's future capital leaves Frankfurt property speculators faintly uneasy.

The official view from the Main is that Düsseldorf, the second financial centre, has more to worry about, with Berlin quite possibly elbowing it off that perch. A spate of new buildings, including the recently announced headquarters for Commerzbank, demonstrates serious commitment to Frankfurt.

At the same time, while much may be made of the law allowing the Bundesbank, as a focal point for the banking community, to stay put in Frankfurt, the central bank can hardly – in the context of European integration – vouch for its own long-term existence. That is why the mayor of Frankfurt, however optimistically, has reserved a space for the future European central bank.

The Frankfurt banking district viewed from across the river Main: fulcrum for transfers to the east Pic: Tony Andrews

CONTENTS

BUNDESBANK: the guardian of the D-Mark faces monetary strain

Challenges grow more intense

Helmut Schlesinger (right) the central bank's long-standing vice-president, will succeed Karl Otto Pöhl when he steps down at the end of July. The Bundesbank is stressing continuity in its policy making Pic: Tony Andrews

THE D-Mark was the instrument and the prize of German unification. Both the currency and the *Bundesbank*, the institution which supervises, protects and guards it, will turn out to be casualties if the already problematic economics of the process go still more seriously awry during the next year or so.

The monetary strains of the last 18 months have brought the Bundesbank one of the most headily challenging periods in its 34-year-old history. As it grapples with a change of leadership at the end of July, as well as with fresh battling over the future of European monetary integration, the Bundesbank knows that the challenges are likely to become still more intense.

Mr Helmut Schlesinger, the central bank's long-standing vice-president, who takes over from Mr Karl Otto Pöhl, is a highly experienced economist. He has spent nearly all his working life in the Bundesbank and its forerunner, the Bank Deutscher Länder.

Mr Schlesinger is a conservative with a profound belief in the "no experiments" approach which – up until reunification – imbued Germany's fiscal and monetary policy. Neither he nor the much more pragmatic Mr Pöhl was in favour of rapid currency union with East Germany when it was first proposed at the beginning of 1990 – although they both now see that it was politically necessary.

Mr Schlesinger on several occasions has marked down his view that, facing the problems of unification, Germany has neither the time, the energy nor the manoeuvering room to proceed too fast towards European monetary union (Emu). The Bundesbank has succeeded since last autumn in persuading Chancellor Helmut Kohl that, with German unity now firmly under his belt, there is little to be gained and everything to be lost from making concessions over Emu.

The Bundesbank view was put most forcefully in June by Mr Hans Tietmeyer, who will take over as vice-president when Mr Schlesinger steps up to the number one job in August. Mr Tietmeyer's stature is increased by the fact that – almost alone among the Bundesbank's top officials – he has the ear of Chancellor Kohl. "German unity should not slow down the European unity process. But it should also not speed up the process," said Mr Tietmeyer.

Mr Tietmeyer, who on present plans will take over as Bundesbank president when Mr Schlesinger retires in two years' time, breached an unwritten German taboo by stating plainly what Germany would give up through Emu. Traditionally, Bonn politicians – above all Mr Hans-Dietrich Genscher, the foreign minister – have put Germany's arguments about Emu in terms of what the Germans and Europe would gain. Mr Tietmeyer spelled out that Germany's interests were in fact more complicated than that. Through Emu, "Germany would lose a lot – namely, one of the most successful and best monetary constitutions in the world", he said.

Chancellor Kohl has been much more cautious over the Emu target in recent months. The French and Italian governments extracted from him a pledge last October at the first EC summit in Rome that a new "institution" to run the Community's new monetary arrangements would be set up in January 1994. However, the Bundesbank and finance ministry soon made clear that they were not willing to countenance establishing a European central bank by this time. The date has been put back to 1996 – at the earliest.

Part of the reason for the reluctance to agree an earlier timetable lies in the extraordinary financial turbulence engendered by German unity. Although the process has led to a growth spurt in the western half of the country, the economic results of the first 12 months after currency union on July 1 1990 have been far worse than expected.

The depression in the east has been far deeper than optimistically naive forecasters in Bonn believed and broadcast last year. Public sector transfers towards east Germany, above all to shore up incomes rather than to promote investment, total more than DM140bn this year. The Bundesbank estimates that the overall public sector deficit in Germany this year will be DM140bn-DM160bn or 5.5 per cent of gross national product. This is considerably more than the government's target last autumn – even after the large tax increases which came into effect on July 1 this year.

The setbacks for the Bundesbank over German monetary union are likely to make it fight all the harder over Emu

The pick-up in inflation – encouraged by pay settlements in western Germany of about 7 per cent – together with Germany's switch into current account deficit encourage the view that German interest rates have not yet reached their peak. Mr Schlesinger, Mr Tietmeyer and the rest of the Bundesbank's policy-making council will however not be making a decision until the autumn on whether the next move in the discount and Lombard rate will be up rather than down.

One of the main drawbacks facing Mr Schlesinger is that the Bundesbank's traditional all-powerful image in the German public eye has been dented since the beginning of 1990.

Mr Pöhl announced his resignation for a complex mixture of reasons – ranging from worries about terrorism to his growing boredom (as he admitted recently with typical openness) with his own speeches. Although Mr Pöhl had indicated to friends (and to Mr Kohl) that he probably would not serve the full length of his second eight-year term (up until 1995), disagreements with the government over the pace of the unity process undoubtedly contributed to the decision to quit.

Mr Pöhl, in spite of his confidence and bonhomie, is a sensitive man, and suffered from the feeling that he was not being taken sufficiently into the confidence of Mr Kohl and Mr Theo Waigel, his finance minister. Mr Pöhl's own (not always discreetly voiced) views about the economic policy shortcomings of both men undoubtedly did not encourage a close relationship. In the end, Mr Pöhl saw during the past 18 months a particularly surprising elucidation of what he knew already – that the central bank's famed independence offers it very little protection against larger political oscillations.

The setbacks for the Bundesbank over German monetary union are likely to make it fight all the harder over Emu – a process by which the German government would ultimately make the Frankfurt central bank redundant. For a Europe seeking a "model" central bank to run the continent's future monetary standard, the Bundesbank offers a particularly intriguing spectacle.

It broadcasts the principles of independence and freedom from government interference as the central yardsticks for the creation of any European central bank running a single European currency. But it also appears to be making maximum use of both principles – and of the potential psychological resistance of the German electorate to premature abandonment of the D-Mark – as weapons to ensure that the EMU goal remains, with beguiling permanence, just out of reach.

David Marsh,
Bonn

BANKING

A consistent faller at the Gallic hurdle

AS German banks review their position in the run-up to the European single market there is one notable gap in their armoury.

While France is Germany's largest trading partner and vice versa, mutual penetration of each country's financial service industries has to date remained but a gleam in the eye.

Deutsche Bank's aggressive acquisition strategy elsewhere in Europe has repeatedly fallen at the Gallic hurdle, with Germany's leading financial institution for years looking and failing to find a target of suitable size – at an affordable price.

Similarly, chances to buy into the closely-knit German market are rare; Barclay's purchase of Merck Finck last September when the von Finck family unexpectedly chose to part with the exclusive Munich house removed one of the few remaining independent private banks. Hence the fate of the mooted share swaps between Dresdner Bank and BNP on the one hand, and Commerzbank and Crédit Lyonnais on the other, will be an area to watch closely.

In the case of Commerzbank, Mr Walter Seipp retired as chief executive at the end of May without having completed a deal he had been enthusiastically touting for at least four years. Earlier in the year, the way had apparently been opened by the French government's partial relaxation of foreign investment into state holding companies.

A swap, whereby Commerzbank took about 7 per cent of Crédit Lyonnais and the French acquired 10 per cent of Commerzbank's capital, was said to be imminent.

Now, after another postponement, the Germans have set a deadline for the end of the year for the transaction finally to ripen. That still leaves ample time for Mr Seipp's successor, Mr Martin Kohlhaussen, to decide that the cultures of the two banks – with Crédit Lyonnais presently in top expansionary gear – may not mix.

Crédit Lyonnais's go-it-alone strategy in Spain has prompted the "suspension" of the Europartners group – the long-standing association between Banco Hispano Americano, Banco di Roma, Commerz and Crédit Lyonnais. The French bank sent a fairly provocative signal to its potential German partner when it opened another branch in Baden-Baden.

The better match appears to be Dresdner and BNP, not least in terms of size. The banks already have a co-operation pact – even if the most prominent joint acquisition venture since then was the failed bid for Yorkshire Bank.

Assuming a share swap goes ahead – of perhaps 10 per cent each way – the more intriguing question is how far co-operation might be taken. "Swapping the shares in itself means nothing beyond a demonstration of commitment," Mr Stephen Lewis, banking analyst at Salomon in London observes. "Withdrawing from each other's respective home markets and running existing and future foreign operations on a joint basis might be one effective way of combining forces. In the longer term the possibility of a full merger cannot be excluded." Meanwhile, by far the strongest lift to the German banks' competitive position within Europe has come from expansion into the eastern Länder. While all continental banks are indirectly benefiting from the woes of the US and Japanese institutions, most visibly through widening margins, the German banks are enjoying a considerable extra fillip from the east.

Seipp: retired without completion of French deal

Sitting in the midst of the crumbling east German economy, the banks were taken aback at the rapid progress on the liability side of the balance sheet.

Corporate deposits were bolstered in the latter part of last year as the east German companies still doing business with the Soviet Union were suddenly, under the terms of currency union, receiving their transfer rouble payments converted at a generous rate into hard D-Marks. This helped all the banks, in spite of their high costs, to reach break-even sooner than expected.

With a unique opportunity for institutions, previously confined to the over-banked west, to redistribute market share between themselves, initial decisions counted for a lot.

Commerzbank, which has built a network from scratch, claims to have a considerable edge in terms of profitability over Deutsche Bank and Dresdner, the latter two burdened by the high overheads of thousands of staff and a set of run-down buildings from the old system.

However, Germany's third largest bank appears to stand little chance of catching up with its bigger rivals particularly in terms of corporate business. Dresdner, much smaller than Deutsche Bank in the west, looks poised to garner a roughly equal share east of the Elbe.

In the mature western market, on the other hand, one niche that appears to have captured the attention of in-house strategists is catering to the needs of the high net worth individual, product in part of the "inheritance generation". This month, Dresdner Bank opened the doors to an imposing Jugendstil building in the heart of Frankfurt – a new operation, but resurrecting the (in German financial circles) historic name of Hardy & Co, private bankers.

Earlier this year, Commerzbank acquired a financial services advisory unit of Matuschka, the Munich group, and both Deutsche Bank and the Bavarian bank have bought, or bought into exclusive private banks.

Whether offering essentially the same service in plusher surroundings will secure the custom the banks want is another matter. Private banks such as Trinkaus & Burckhardt, whose client base the new operations might be targeting, say they regard the foreign competition, notably the Swiss banks, as more formidable.

The provision of more sophisticated products, rather than the environment itself, may be more in tune with the needs of the more adventurous German investor.

Katharine Campbell

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BANKING IN THE EAST: leap in the dark pays off

Pioneers of capitalism

"When did you last express appreciation to your bank?" challenges Mr Klaus-Peter Müller, deputy board member of Commerzbank, and mastermind behind his institution's push into the new eastern Länder.

Introducing the western financial system into the east has been an immense human adventure, turning the most stuffy, button-downed west German banker into an enthusiastic, even gushing, pioneer. Prime motivation for the punishing hours in poor conditions – still enduring after 12 months of currency union – has been a generally enthusiastic response from their customers who have become their pupils in capitalism, western-style.

'Everyone is stupidly talking about trying to attract Japanese or US manufacturers'

Unlike the rest of German industry, the banks made their commitment to the east early. Many months of preparation – from setting up pavilions to equipping fledgling democratic political parties with used typewriters – preceded the official start of business on July 1 1990.

None claim to have foreseen the depth of chaos in the east German economy. "We were ill-informed and under-estimated the enormity of the transition," said Mr Hilmar Kopper, chief executive of Deutsche Bank. But the leap in the dark appears to have paid off.

Gloomy statistics continue to issue forth from many parts of eastern industry, yet the banks are turning in profits far sooner than expected. They are also building a system that is technologically superior and, in terms of branch structure, supposedly more rational than that in the west. But there have been nervous moments. And, with the bulk of the business to date coming from retail deposits and business start-ups, the institutions have yet to crack the toughest nut of how to provide innovative financing to the broad swathe of corporates and local government entities that will be crucial to the successful accompaniment of the long-awaited economic turnaround.

The biggest leap of faith was on the part of Deutsche Bank and Dresdner Bank, who, by entering into joint ventures with the Deutsche Kreditbank, the "commercial" banking part of the old state monopoly, burdened themselves with a formidable cost base in exchange for an instant and substantial network.

Deutsche, with over 1m accounts, believes it was right, but it also took on some very run-down real estate and as many as 8,600 eastern employees – mostly women, mostly over 40 years old, and a full half formerly employed in the now redundant payments system. Of those, 7,200 people are still on the payroll, the balance reduced principally by "natural wastage and early retirement" according to the bank. Retraining is proving a more formidable task than anticipated.

Commerzbank, by contrast, which points out that its go-it-alone strategy has made it a lot more profitable than the joint venture banks, has tried to make a virtue of building from scratch.

"We wanted to be just like Commerzbank in the west – with the same friendliness and quality standards, and not operating from those sepulchral palaces of [the Kreditbank]," says Mr Müller who adds that being known as the bank that is hiring, not firing people, is an important marketing point.

Gloomy statistics continue to issue forth from many parts of eastern industry

Meanwhile, taking over a part of the old central bank brought its own problems. One Deutsche director remembers visiting branches around the country to find his new operations still effecting payments for the savings and co-operative banks – part of a different, and now competing system.

There were countless minor upsets in carving up the Kreditbank. Deutsche, finding that Dresdner had cornered the main branch in Dresden, was left with an entirely redundant communications and computer system – as it all led back to feeders in the regional head office.

Then there was the flood of D-Marks. A Deutsche Bank official recalls months of tension with hoards of cash housed in buildings with quite inadequate security – and the bank powerless to off-load the notes on the Bundesbank which was also just finding its feet.

The real disaster was the payments system. Ironically, the old eastern network had functioned perfectly efficiently. Hence, all the greater the horror of account holders who found their wages from last July onwards taking upwards of six weeks to reach them. The old system could not be kept – not least because of its complete lack of security, allowing the authorities to examine each and every transaction. But interfacing with the western system has taken virtually a year, with the worst chaos in the latter part of 1990. For a period last autumn, Deutsche Bank had to send an emergency force of as many as 700 extra staff from the west. A poor advertisement for the can-do image of the new western banks.

To make matters worse, the east Germans were virtually forced to keep accounts with the savings banks, as payments such as rents could only be made via the old system. This is one reason why the old-fashioned savings banks have so far lost much less market share than anticipated – retaining about 80 per cent of deposits worth about DM82bn.

However, with the infrastructure – communications, payments system, buildings – gradually falling into place, and the retail business hence progressing more smoothly, the focus must shift to corporate lending. Aside from the substantial government-guaranteed liquidity credits, lending to the 400,000-odd new businesses has until now made up the bulk of activity. They were selected, given the irrelevance of conventional credit analysis, primarily on personal impressions.

One Dresdner Bank relationship officer cites the case of a talented advertising designer straining at the bit long before the wall came down. He was visibly demonstrating his feelings about the state with the prison bars he refused to remove from his bedroom window. Now driving a new Mercedes, he is likely to achieve a turnover of DM1m this year.

Building up business with large corporate clients is far trickier – even now only an estimated 60 per cent of the Treuhand companies can produce an initial balance sheet. In the small amount of plain vanilla lending that has so far been transacted, the banks are operating at the limits of what their regulators will allow –

None claim to have foreseen the depth of chaos in the east German economy

as regards covenants, asset backings and such like.

Some institutions' answer to the riskier nature of the business has been to consider modest equity stakes. Westdeutsche Landesbank, for example, has several pilot projects under way, including the part-financing of a Berlin industrial cleaner, where management and other institutions are also committed.

"Risks are high but the prices [for companies] are very low" says Mr Roland Berger, who heads Germany's leading domestic management consultants.

However, there is still criticism that the banks have not been sufficiently imaginative in their corporate relationships.

"Everyone is stupidly talking about trying to attract Japanese or US manufacturers. This is a misconception," according to Mr Berger who thinks that international pensions fund money, "managed by really top people" would, for example be a more realistic way of attracting foreign capital. As the east German economic engine kicks into forward gear, the banks may be presented with some of their toughest tests yet.

Katharine Campbell

INWARD INVESTMENT: fulfilling a national duty costs money

Progress amid the gloom

New BMWs on the way to the east pass an abandoned Trabant

PUTTING the east German economy to rights will take longer and cost more than expected, but signs of progress are emerging amid the general gloom and confusion.

"Although the transition is bound to be painful we have every reason to believe that the crisis will soon be over," says Mr Karlheinz Kaske, chief executive of Siemens.

Like many of Germany's big companies, the Munich-based electrical and electronics company has been quick to move into east Germany, although it has yet to make money there. This year, it expects to obtain orders worth some DM3bn in the five new eastern states, rising to DM5bn next year.

Siemens has acted out of a combination of business self-interest and moral spirit, as have Daimler-Benz, which plans a DM1bn truck plant near east Berlin, Volkswagen (investing about DM5bn), the big energy companies led by RWE and Veba, and the banks and insurance companies. So far, it has formed 15 new companies in east Germany – nine in manufacturing and six in sales, engineering, and services – and opened a number of technical, sales, and supply offices. It employs 20,000 people there and has 1,600 trainees.

Mr Kaske, speaking at Siemens' recent half-yearly press conference, asserted: "This display of corporate muscle was necessary on the one hand to exploit the once-in-a-lifetime opportunity of a domestic market literally expanding overnight. On the other hand, it also expresses our commitment to social and political responsibilities which cannot be ignored. It certainly would have been possible, and also less costly, to handle the anticipated orders at our facilities in the west of the country. Eastern Germany, however, needs a stable local value-added base, and we consider it our duty to provide it."

As Mr Kaske made clear, fulfilling the national duty costs money. Start-up losses on Siemens' new activities in east Germany will exceed DM100m this year, a sum it can easily afford. One problem for Siemens and other companies involved in east Germany is that companies there lost most of their east European business

Kaske: crisis will end soon

overnight through the collapse of Comecon, the problems in the Soviet Union, and the disruption caused by the abrupt switch to a free market economy in the new German states.

BASF, the big chemical group, for example, is finding it hard to turn round its new subsidiary at Schwarzheide near Dresden in the wake of the economic turbulence further east. It was taken by surprise at the swiftness with which Comecon folded up. Before the D-Mark was introduced to the former East Germany, nearly two-thirds of the country's exports went to Comecon countries; of that, more than half were to the USSR.

The Bonn government has been trying hard, and with some success, to get the Soviets to live up to their promises to order more goods from east Germany. But it will be a long time before the size of trade approaches earlier levels.

"Inevitably the economy in the ex-DDR is taking time to recover from these shocks. This is demonstrated graphically by the statistics," comments Mr Jonathan Hoffman, economist with Credit Suisse First Boston.

The latest figures show that the gloom is continuing. Although the Treuhand, the east German privatisation agency, is steadily selling off the former state-owned companies, it still has a long way to go. Moreover, unemployment is rising and will further increase sharply as employment protection measures in east Germany end. Productivity there is far below western levels and the task of rebuilding the infrastructure, cleaning up pollution, and modernising industry is enormous.

For potential investors, the immediate prospects are hardly rosy. But the long-term chances are there. It is these which have attracted such foreign companies as GKN (UK), Coca-Cola, R.J.Reynolds, and Philip Morris (US), Opel (part of General Motors of the US), Lafarge Coppée and L'Air Liquide (France).

As Mr Hoffman pointed out in a CSFB study; The Neue Länder: Gloom Overdone, entering east Germany is a way of attacking the German market without having to buy a west German business, many of which are closely controlled. It also offers, for non-EC companies, a foothold in the EC. Moreover, attractive subsidies are being offered, which can total up to 33 per cent of start-up costs. And with the improvement of telecommunications systems in the east, a large barrier to doing business is being removed.

Depending on which viewpoint is taken, the glass is half empty or half full. East Germany still has large economic problems and they will not be solved quickly. West Germany is pouring vast amounts of public funds into the east and has finally had to raise taxes to help finance this. So for the government, taxpayers, and investors, the big question is how quickly east Germany develops its own economic momentum.

Andrew Fisher

■DERIVATIVES: important, if late, addition to the capital market

Conservative investors find a taste for adventure

ONE of the tougher battles *that exchange officials recall* fighting when they set up Germany's futures and options market, the Deutsche Terminbörse (DTB), two years ago, was against the hords of sceptics arguing that the domestic investor was a far too conservative beast to consider derivatives seriously.

However, *the DTB has* become a successful and growing exchange, and over-the-counter derivatives have also caught on. The market may still lack sophistication, the enthusiastic investor may be paying excessive prices for some of the instruments,

Some controversy has surrounded the growth in covered warrants on individual stocks

and the DTB has had its teething problems, *but it is clear that derivatives are settling* down to become an important, if late, addition to the German capital markets.

In a record month in June, the DTB traded 1.1m equity options. This gives the 18-*month-old DTB* a lead over the other European exchanges in options – with a volume in *June about twice that of the* long-established LTOM in London. At the same time, futures, started nearly a year after the options products, will take longer to develop. June saw 292,000 futures contracts traded – divided between the DAX stock index and Bund futures.

Options on equities have worked well over the new electronic medium partly because, as a mathematical exercise *entailing a host of different* prices and contracts, options trading is much better suited to the electronic world than the more homogeneous futures products where the computer still simulates only imperfectly the speed of a pit.

The credit for luring retail investors into options products – a feat that in some other markets has taken years if it happened at all – must go to *some* of the big banks that have invested heavily in training their customer advisers in branches around the country. Mr Günther Wudy, head of options and futures at Commerzbank, says that staff in the branches in turn conducted customer seminars that were "simple things like what is a put, *what is a call*" – a process that is now beginning to pay off.

The DAX *stock index future* introduced at the end of last year is gathering liquidity. It is helped, like the equity options, by the fact there was a gap in *the market where no other* exchanges were competing. A DAX cash option is set to begin trading in August. *As* with all index options, it is likely to take some volume away from the individual options, but could soon trade 30,000 *lots* a day, according to market participants.

The Bund future, firmly established on Liffe in London

The Bund future, already firmly established on Liffe in London when the DTB started last November, has been the toughest nut to crack. In June, the DTB was still only seeing 16 per cent of the *Bund futures* market

when the DTB started last November, has been the toughest nut to crack. In June, the best month to date, with an average daily volume of 7,110 contracts, DTB was still only seeing 16 per cent of the total Bund futures market, with the rest going to London.

A system of designated market makers agreeing to make regular prices, established in March, has helped to channel *more* business back to Frankfurt, and the DTB says it wants to widen the group of institu-*tions involved. But genuine* customer business is slow to develop – the exchange's June figures attribute just 14 per cent of the monthly total to *trading on behalf of clients.* A lot of the volume is said to be generated by German banks arbitraging between the two markets, while non-German players, accounting for some two-thirds of the market, remain firmly committed to London. On heavy trading days Liffe tends to perform particu-*larly well*, and prices, even the German banks have to acknowledge, are generally dictated by London.

DTB members are counting on the introduction of an option on the Bund future, scheduled for August, to provide further impetus to the home contract. Many trading sequences require both the future and the option, and it is hence more efficient to do the trades on one exchange. The Germans say this is the main reason why they still use Liffe.

The system suffered severe overloading, particularly fol-*lowing the introduction of the* futures facilities, but has been improved in terms of speed and reliability after the installation of new hardware in May. At *the same time, the smaller* member banks, for whom the costs of DTB are large, point to the expense for an electronic exchange of keeping technological pace.

More rapid than the DTB's growth has been the proliferation in over-the-counter products, both in the fixed income *and equity area. OTC Bund* options, a market that has taken off in the last 18 months, was fostered initially by foreign banks including J.P.Morgan and Citibank but has some domestic names, notably Commerzbank, getting involved as market-makers. The product

The credit for luring retail investors into options products must go to the big banks

has appealed especially to insurance companies, who have emerged as big writers of put and call options. Particularly this year, when the cash Bund market has not moved very much, institutions have been able to earn extra premium by such strategies.

There has also been a flood of equity-related products, including warrants on the DAX *and individual* equities. According to estimates from UK broker James Capel, the total market capitalisation of the German warrants market is about DM14.6bn, with a total of 294 warrants, of which 214 are covered – paper issued and hedged by banks that does not represent an increase in *the company's capital. Of* these, 124 are index warrants, mostly on the DAX.

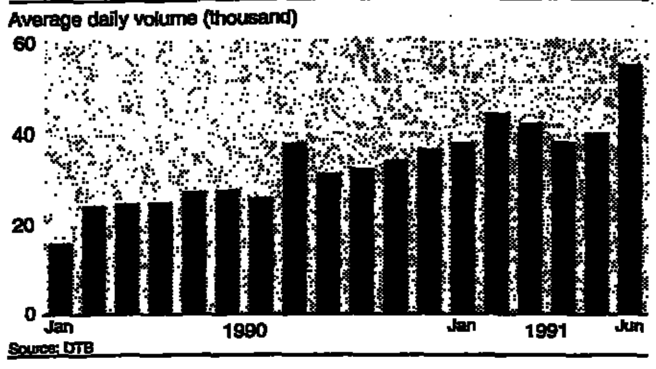
Recently, *the number of* products on the market, particularly in the index sector, and the variety of issuing institutions who have jumped on the bandwagon, has cast doubt on the quality of the prices that will be maintained in the secondary market.

A tinge of controversy has surrounded the growth in covered warrants on individual stocks – with the companies *concerned* that too many outstanding warrants could affect their share prices. Dresdner Bank, for example, says it has avoided what it calls a hostile product for that reason. But the colourful array of instruments, from high coupon bonds repayable in shares to securities pegged to futures prices, *has proved the venture*some (or, given the overpricing of a good proportion of the *deals, perhaps gullible) nature* of German investors.

Katharine Campbell

Stock options

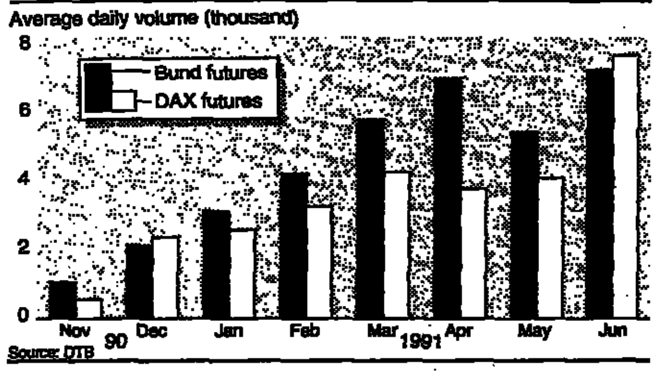
Average daily volume (thousand)



Source: DTB

Financial futures

Average daily volume (thousand)



Source: DTB

■TRINKAUS: innovative force among Düsseldorf's Schicki Mickis

Institution is banking on high technology products

FRANKFURTERS are fond of *dismissing* the denizens of stylish Düsseldorf as " Schicki Mickis" – in other words, a mite spivvy.

In the investment banking world too, things are achieved along the imposing chestnut-lined Königsallee where the first financial centre can but look enviously on. Ten years *ago Trinkaus & Burckhardt* was "just like any other bank," according to its senior partner Mr Herbert Jacobi. But a combination of personnel changes and steady investment has turned the Düsseldorf private *bank into a rare species in the* German financial world – an often innovative institution.

High technology products are typically introduced to a not always enthusiastic domestic audience by foreign banks. Trinkaus, while 80 per cent owned by Midland Bank of the UK, sees itself very firmly as a *domestic institution growing a* culture that combines elements of the fast-moving deal-oriented US mentality with the solidity of a German universal bank.

Mr Jacobi, an urbane international banker with dual American and German nationality, has not surrounded himself with a host of *Anglo-Saxon* bankers. For example, the driving force in the securities *department*, Mr Christoph Niemann, comes, like Mr Jacobi, from BHF Bank, the Frankfurt merchant bank – hired, in most un-German fashion, in the space of a day with the other Trinkaus partners' approval gained at a cocktail party.

Mr Niemann puckishly describes his role *as* "developing sexy products to break up marriages." The trysts he interrupts are the cosy relationships between the biggest banks and the top ranks of German industry which remain difficult for smaller institutions and foreigners to prise apart.

No single young rocket scientist is the key to the flood of new products issuing out of *Trinkaus – from* "reverse floaters" to warrants on fixed income futures to bonds with repayment options in shares. A dozen specialists from around the bank will be called in to brainstorm, often for hours at a time.

Mr Niemann – who unlike many of his counterparts elsewhere in the capital markets spends a lot of time talking earnestly about successful *man-management – is still the* prime catalyst: "Not a lot happens when I am away unfortunately".

However, product generation by a wide variety of people, which Trinkaus thinks is an important part of its success, is "the sort of process that would be political dynamite in a bigger institution. There would be all the big bank horrors we do not have", Mr Jacobi, for a long time at Chase Manhattan in New York, explains.

He sees the Trinkaus *machine as more effective on* the selling side because its group of service specialists do not have to work through a relationship manager. "A lot of banks' relationship managers function as bottlenecks not as facilitators".

Trinkaus has consequently been at the forefront of the explosion of hybrid products in Germany. One early trademark was the reverse floater, a floating rate note redesigned to appeal in the current high

'What you see is very much not what you get,' acknowledges Mr Jacobi

interest rate environment. It offers investors a relatively *generous fixed rate for the first* few years, the paper then becomes a play on falling rates in the future, with a coupon at, say, 16 per cent minus six-month Libor.

The design is not without its detractors who wonder how liquid the instrument will be after the fixed rate period runs out. Another concept that has been picked up by other houses is bond issues giving the bor-*rower an option to repay in* shares. Trinkaus selects shares it believes are long-term buys, that investors will be prepared to hold if the issuer choses that repayment option. The borrower in turn pays for the share put with a higher interest coupon.

As with all hybrid products, other bankers contend that investors would do better to purchase the components separately – but then that is how investment bankers have always earned their money.

Trinkaus's competition, particularly the big banks, remains fascinated as to where the more *exotic products* are placed. "With their clients at their branches to a large extent," replies Mr Jacobi triumphantly, pointing out that syndicate managers who design issues and are out of touch with their own floor dealers illustrate precisely the slow-footed response of the *universal banks.*

Capital markets products are only one leg of the tripod of earnings which makes for the stability that Mr Jacobi contrasts with the typical US investment bank. A further third of the income stream comes from straight commercial banking (servicing as a rule companies with annual turnover between DM50m-DM1bn) and the last third from *private and institutional asset* management with about DM20bn in custody.

Also following very firmly in the German tradition is the amount of profit Trinkaus shows – partial operating profits last year were DM80.8m, a figure that has stayed more or less static for the last five years. "What you see is very much not what you get," acknowledges Mr Jacobi, *explaining that in addition to a* hyper-conservative reserving policy, the bank has invested heavily in systems and people.

He is convinced it will pay off: already putting Trinkaus at least DM100m and five years ahead of the coipetition in terms of technolcy for example. On page 45of the 1990 annual report coies *the first*, vague, mention tat Trinkaus is majority ownecby Midland. Mr Jacobi makes nuch of the independence frm London and, with the UKbank's diffi-*culties, has had rason to feel* particularly pleasd that T&B did not have "grifns (the Midland emblem) starped all over us".

What he has bei powerless to avoid is the peisistent speculation that th troubled clearer might dipose of its German investmei. This is a scenario he feels onfident in dismissing undei Mr Brian Pearse, the new chf executive *until recently at Brclays, who* has conveyed to Dsseldorf "a feeling of a greatdeal more security".

The importance : the right owner is all too ear to Mr Jacobi who says thi the previous owners Citibak allowed T&B to atrophy in most areas excepting computerechnology where they were used as guinea pigs for the roup.

Some 18 per cent f the rest *of the shares hav recently* been bought by tl Landeskreditbank BadenWürttemberg, a public sectobank and regular capital maret issuer that also has considable placing power among lod savings banks, giving Mr Jabi what he deems "a perfectcombination, on top of Midlai's international synergy".

Is he not worried hat Berlin's growing financi importance *will be at the epense of* Düsseldorf? "Teqnology makes location incasingly irrelevant," says *an unruffled* Mr Jacobi.

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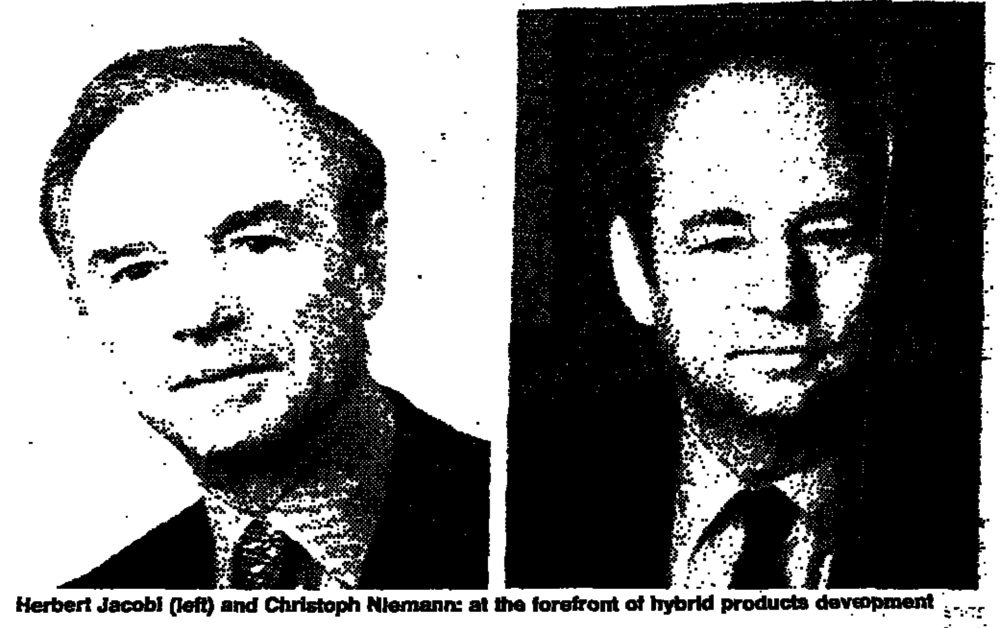


Herbert Jacobi (left) and Christoph Niemann: at the forefront of hybrid products deveopment

COMMERCIAL PAPER

Deutsche Bank's aggressive start

THE absence of an active money market has long been one of the curiosities of the German financial landscape. But regulatory change at the *beginning of the year has* paved the way for the issuance of commercial paper, a market that has sprung to life filling an important gap in the range of D-mark investment instruments.

The prospect of the abolition of stock exchange turnover tax together with the removal of *cumbersome official approval*

The bank appears to be using its muscle to considerable effect

procedures for new securities issues prompted Deutsche Bank in December *to announce* the first programme, DM500m for Daimler-Benz.

By the end of June, some 12 facilities totalling DM5.34bn had been signed, with outstandings amounting to over DM4bn, showing that the bulk of the programmes are being actively used.

By *far the largest is* the DM2bn facility for the Treuhand, with the other borrowers almost exclusively *German* household names. The first foreign entrant, Alcatel of France, has announced a programme, and dealers say others are set to follow.

The lack of alternative D-Mark money market instruments has meant that, at least in the initial stages, investor interest has been strong – with an inverted yield curve enhancing the attractiveness of short-term investments. High levels of corporate liquidity have been an additional driving force.

Some companies have tapped the market themselves in order to *invest the proceeds* in higher yielding commercial paper from other less popular names. Investment funds with short-term liquidity (most of the paper being for maturities under three months) have provided another home.

Taking the prize *for* the most unexpected source of interest are the east German municipalities. They are *apparently* temporarily flush with cash in transfers from the west that they are failing to convert speedily into investment projects, and have been significant buyers.

Indeed, a healthy overall appetite for paper has driven yields down to what are probably *unsustainable levels, with* all borrowers issuing below Libor (the London interbank offered rate) and many very considerably under Libid (the bid rate).

This in turn has tended to *keep away international* investors, who have opted to seek better rates elsewhere. Eventually, foreign buyers will *be* necessary players if the market is to develop a steady investor base.

So far, none of the programmes carry credit ratings – in spite of the importance to investors of such signposts, as demonstrated in the big cp markets elsewhere including

By the end of June some 12 facilities had been signed

the US and France. While German companies are traditionally reluctant to acknowledge the need for ratings, the international agency Moody's, recently with an office in Frankfurt, is hoping that will change, in turn leading to yield differentiation based more closely on relative creditworthiness.

So far, Deutsche Bank has been the sole arranger of as many as 10 of the programmes, prompting cynics to question the genuineness of the arket. "Deutsche Bank will jusmake sure its client companie have a programme in plac and then the market wil stop developing," was the vw of one competitor a coule of months ago.

However, the leadin German bank has by no mens a monopoly on the dealersh – with foreign banks, nably J.P.Morgan, as well as ther German institutions als taking part.

At the same time, Deutche's

By far the largest is the DM2bn facility for the Treuhand

aggressive stance no dout arises from a sensitivity to how new instruments, cp included, can threaten to ode traditional banking relations*hips.*

The bank appears to be using its muscle to considerable effect to prevent that happening.

The other reason German banks have traditionally read the development of a functioning money market is becase of the impact on the liabity side of the balance sheet.

Pure money market fu are still not allowed – v *the objections of the* Bundbank, which sees them as c fusing its monetary targe *process, a prime obstacle.*

However, there is little do they will not be excluded indef initely.

Then the banks' extremely cheap funding base, built n the miserable rates *they ha* traditionally paid deposito will be under attack. The German banks' participation the nascent cp market may an indication that they thi they can no longer put off inevitable.

هكذا من الأصل

■INSURANCE: the east provides a fillip

Untapped regions end the stagnation

THE unification of Germany has been a shot in the arm for country's insurers. Overnight Germany's powerful but somewhat protected insurers have found in the five new east German states an underdeveloped market which they are culturally uniquely suited to exploit. "It has rescued them from stagnation. Germany is now the fastest growing hard currency market in the world,"

By European standards, prices and profit margins have been very high

says Mr Michael Huttner, analyst with BNP Securities.

This year, Germany's insurance industry expected to grow by between 9 and 10 per cent compared with a 7 per cent expansion in 1990 and growth of 7.5 per cent in 1989. Gross premium income reached DM145bn in 1990.

New demand from east Germans for life insurance, and a vigorous sales effort by a number of companies in the life and personal accidents sectors are the main factors fuelling growth.

Last year new business life premiums grew by no less than 31 per cent with the sector as a whole expanding by 11 per cent. New business in force rose from from DM48.9bn to DM53bn.

This year new life premiums could grow by as much as 100 per cent in the east.

East Germans are spending a significant proportion of the welfare benefits extended by the German state on simple life insurance savings products – typically whole life contracts – in order to supplement their relatively meagre pensions and social security rights.

Although the country's biggest insurer Allianz won the battle to acquire the former state-owned east German insurer, Deutsche Versicherung, other companies, notably Aachener & Münchener, Hamburger-Mannheimer, Alte Leipziger and Volksfürsorge have been quick off the mark to establish direct sales forces in the east.

There has also been an impact on the motor market with all east German policies coming up for renewal on January 1 1991, producing a significant one-off impact on premium income.

Last year premiums in the liability and casualty sector – which stem largely from motor business – rose by 4 per cent to DM43.6bn.

With premium rates flat following a 7 per cent increase in 1989, the rise in premium income reflected an increase in sales volume.

Last year new business life premiums grew by no less than 31%

The fillip of the new market could not have come at a better time for German companies. Over the past 20 years insurers have enjoyed the benefit of highly regulated market in personal lines insurance, in which the Berlin-based regulatory authority, the Bundesaufsichtsamt für das Versicherungswesen (BAV) has regulated terms, conditions and rates of policies.

By European standards prices and profit margins have been very high and have helped mask the impact of competitive pricing in the industrial risks area on profits margins, where German insurers have offered some of the cheapest prices in Europe.

Premium income from fire

This year, Germany's insurance industry is likely to grow by between 9% and 10%

insurance rose by just 1 per cent in 1990, largely reflecting the softness of industrial fire rates, after falling by 0.8 per cent in 1989.

With claims costs growing at between 5 per cent and 10 per cent per year many German companies have been losing money on their industrial risks business.

However, the approval by the European Community of the 3rd life and non-life insurance directives will make it impossible for these arrangements to be sustained in the long-term.

By allowing insurers from other less tightly regulated industries to trade in Germany on the basis of their home country licenses, liberalisation could well expose German companies to fierce competitive pressure.

Many UK life companies in particular offer much more attractively priced products.

Richard Lapper

■ALLFINANZ: Deutsche Bank venture hots up the savings battle

Strategies altered to fit social trends

ALLFINANZ – the growing integration of life and personal lines insurance with banking and other financial products – is nothing new in Germany.

The country's municipal and state-owned savings banks have sold a range of life insurance products through their branch networks for over 20 years. But the barriers between the highly regulated worlds of insurance and banking have only really started to come down in the last five years. And the early successes of Deutsche Bank's venture into the life insurance market seems likely to trigger an escalation in the battle between the Germany's biggest banks and insurers for control of the country's savings.

Underpinning the competition between banks and insurers has been a shift over the past 10 years in the character of German savings market.

Reflecting the growing affluence and changing age profile of the population, Germans are investing an increasing proportion of their savings in life insurance and other long-term accounts.

In 1989, for example, 44 per cent of savings were invested in life and pensions products compared to 35 per cent in 1981. As a result banks are running the risk of losing customers to insurers, while insurers face losing their grip on the market for life insurance.

Deutsche Bank was sufficiently impressed by the importance of these trends that it took the decision in 1989 to form its own *de novo* life company.

After rejecting the idea of forming a loose alliance with an insurer, Deutsche invested DM200m on the new subsidiary – Deutsche Leben – which opened for business in January 1990. Last year, Deutsche Leben sold life policies with a total sum insured of DM4bn putting it into 17th place in the league table of German life insurers.

By comparison the sum insured on new business earned last year by the market leader, Allianz Leben, amounted to DM19.4bn. "Our competition was rather astonished by these results," says Mr Hans-Jürgen Baum, an adviser to the board of Deutsche Bank. The main advantage that banks enjoy over insurers is their "strong client base and the relationship between a bank and its customers," he adds.

DB is expecting to increase sales this year to DM6.5bn-DM7bn of business in force. Mr Baum attributes Deutsche Leben's success to the bank's strong image. In addition though moves to improve price competitiveness – by amortising the standard 3 per cent commission that is usually paid with the first premium over the whole of the life contract – appear to have paid off.

Mr Baum believes that Deutsche Leben's service is superior to many of its competitors. The bank supplies customers with a regular statement of coverage.

In May, Deutsche Bank extended its involvement by forming a joint venture with one of Germany's biggest industrial risks insurers, Gerling, to sell group life and employee benefits policies to companies. The venture is targetting small and medium-sized companies.

For the moment, Deutsche is ruling out any expansion into the home and motor insurance markets. Mr Baum says that involvement in personal lines insurance could affect DB's relations with its customers.

Life insurance new business (1990)

	DMbn
Allianz Leben, Stuttgart	19.4
Hamburg-Mannheimer, Hamburg	15.2
Aachener und Münchener Leben, Aachen	15.0
R&V Leben, Wiesbaden	11.0
Nürnberger Leben, Nürnberg	8.4
Berlinische Leben, Wiesbaden	8.2
Iduna Leben, Hamburg	8.1
Volksfürsorge Leben, Hamburg	8.1
Karlsruher Leben, Karlsruhe	7.5
Victoria Leben, Berlin	7.1
Gerling Konzern Leben, Köln	5.5
Colonia Leben, Köln	5.4
Debeka, Koblenz	5.3
Deutscher Ring Leben, Hamburg	5.2
Deutscher Herold Leben, Bonn	4.3
Bayern Versicherung, München	4.0
Deutsche Bank Leben, Wiesbaden	4.0
Alte Leipziger Leben, Oberursel	4.0
Provinzial Leben Rheinprovinz, Düsseldorf	3.9
Vereinigte Post, Stuttgart	3.9

Source: Zeitschrift für Versicherungswesen, April 1991

Nevertheless the sizeable profit margins obtainable in these sectors could prove to be an attractive magnet and it is not unconceivable that, with margins on its industrial and commercial risks business shrinking, Gerling would be a willing partner.

Deutsche Bank's move into insurance has caused some consternation at Allianz, Europe's biggest insurer, and at Dresdner Bank, Germany's second biggest bank, spurring both parties to weave webs of defensive alliances. Another Deutsche Bank competitor, Commerzbank, the country's third biggest bank, has chosen a joint venture route by linking up with Deutsche Beamtenversicherung, a mutual company specialising in the government employee sector.

Aachener and Münchener, one of Germany's biggest personal lines insurers, had launched one the most ambitious forays into banking by taking over the trades union-controlled Bank für Gemeinwirtschaft in 1987.

The experience has not been an entirely happy one, partially because BfG was at the time of its takeover one of the least efficient German banks and management has struggled to turn it around.

The problems have been aggravated by the bank's heavy exposure to eastern Europe and the USSR.

Dresdner Bank has formed ties with Deutscher Herold, Victoria and Hamburger-Mannheimer in northern Germany and has recently formed a financial holding company, Frankfurter Gesellschaft für Finanzwerte, in which Deutscher Herold, Vereinte Versicherungen and Magdeburger Leben are involved: Dresdner is believed to have acquired relatively small strategic participations in a number of insurers throughout Germany.

Allianz stepped up its sales agreements with banks. Its highly efficient sales forces now sell banking products for Bayerische Hypotheken- und Wechsel-Bank and local co-operative banks in Bavaria; and for Dresdner Bank in central Germany. Each of the banks sell Allianz personal lines insurance products across the counters of their branches.

The first fruits of these efforts have not been hugely successful. While the banks have been successful at selling selling insurance products, the agency networks of insurance companies have been less successful at selling bank products.

Mr Wolfgang Dambmann, one of Dresdner Bank's leading strategists, is undeterred. He believes alliances will give Dresdner potential access to markets in a way that acting alone never could. He cites the possibility of Dresdner selling motor loans by direct mail to one of its insurance partners' motor insurance customers, as an example that could be particular useful outside Germany where Dresdner has virtually no branch network.

"It was obvious that with risks increasing and margins shrinking we could no longer rely on the same distribution channels," he says. "The key danger in Germany is that we are prisoners of our own brick and mortar branch network. We have to find other ways of selling bank products."

Mr Dambmann admits that control of the future revenues generated by bank-insurance synergies could become a decisive problem in the future. Significantly he does not rule out the prospect of Dresdner eventually changing tack. "We will only know by the year 2000 whether we were right or wrong."

RL

■ALLIANZ: acquisitions bring their problems

A long-term view

ALLIANZ'S international competitors may have momentarily breathed a sigh of relief last summer when Germany's – and Europe's – biggest insurer made two costly acquisitions.

Within the space of two months Allianz landed control of east Germany's sprawling and chaotic insurance empire, Deutsche Versicherung, and the large but relatively inefficient US industrial risks insurer Fireman's Fund.

Had the company renowned for its efficiency and strategic acumen overreached itself?

In east Germany Allianz spent only DM270m in capitalising the state insurance monopoly it bought into (renamed Deutsche Versicherung). It now finds itself in charge of a loss-making company with losses of an estimated DM500m in 1991 alone – which will absorb thousands of hours of management time for the foreseeable future, while Fireman's Fund, the San Francisco-based commercial risks insurer cost a further DM4.9bn. For good measure Allianz spent DM1.9bn on a 50 per cent stake in France's Via Rhin et Moselle.

A year on a closer look at Deutsche Versicherung (DV) and Fireman's Fund, shows that both companies pose big management challenges, especially in the short term.

Immediate difficulties are greatest at DV. The east German market place is in a state of virtual chaos as east Germans start to make demands of the insurers which companies are ill-equipped to meet. DV is no exception.

Its workforce is ill-prepared for the rigours of the market. According to Mr Uwe Haasen, the executive board member in charge of the east German operation, DV's employees are used to "working in a particular way" at a time when east German consumers are "now demanding the same standards of service that Allianz delivers in the west."

DV's 14,000 staff generate DM2bn in premium income, compared to DM10bn by the 9,000 staff employed in the west. Mr Haasen admits that with large spending on training and capital investment needed "it will be five years before we break even" but is confident that Allianz is on the right track. "All German investors have to face the fact that there will be a longer payback time from their investments," says Mr Haasen.

However, the long-term potential of the east German market is unquestionable and with its financial strength, cultural and linguistic advantages and track record for high quality service and efficiency Allianz is well placed to take advantage. For example, east Germans buy about half as much life insurance as their west German counterparts. "The propensity to buy is already present. Unlike in southern Europe it will not need a change in customer psychology to develop insurance," says Mr Tom Bennett, analyst with Banque Paribas Capital Markets.

The long-term potential of the east German market is unquestionable

If the east German market grows as it is expected to – Mr Bennett expects a 15-fold expansion over the next 10 years – then DV's annual premium income could amount to as much as DM5bn a year.

Management efforts so far have focused on investments in new technology and training with a number of important west German staff permanently based in the east. DV has relied upon very limited data processing facilities, sharing a mainframe with other government departments.

Allianz recently put its own system in place and aims to install 5,000 personal computer terminals by the end of 1991. It has 2,000 terminals in place.

Although its problems bear no comparison with those faced by Allianz in east Germany, the company will need to take action to turn around its newly acquired US subsidiary, Fireman's Fund.

Judged on the basis of its expense ratio (the ratio between costs and premium income) Fireman's Fund is among the most expensive US industrial risks insurers. Future profitability could be pinned back by the softness of insurance rates in the US.

Over the past five years Fireman's has retreated from a number of personal lines markets in the US, withdrawing from the personal lines markets in Massachusetts and New Jersey and steadily reducing the amount of motor business it writes in California, where it covers about 40,000 drivers compared to several hundred thousand at the beginning of the 1980s. Staff numbers have fallen from 12,799 to 10,297 but with premium shrinking to \$2.73bn in 1990 compared with \$3.35bn in 1986, the expense ratio remains stubbornly high at 35.2 per cent.

Although cost cutting efforts introduced in the mid-1980s will continue the company will seek to put most of its efforts into winning greater quantities of big ticket commercial lines business. The aim is to combine Fireman's regional strength in the US with Allianz's international marketing muscle to provide more international programmes to Fortune 500 clients.

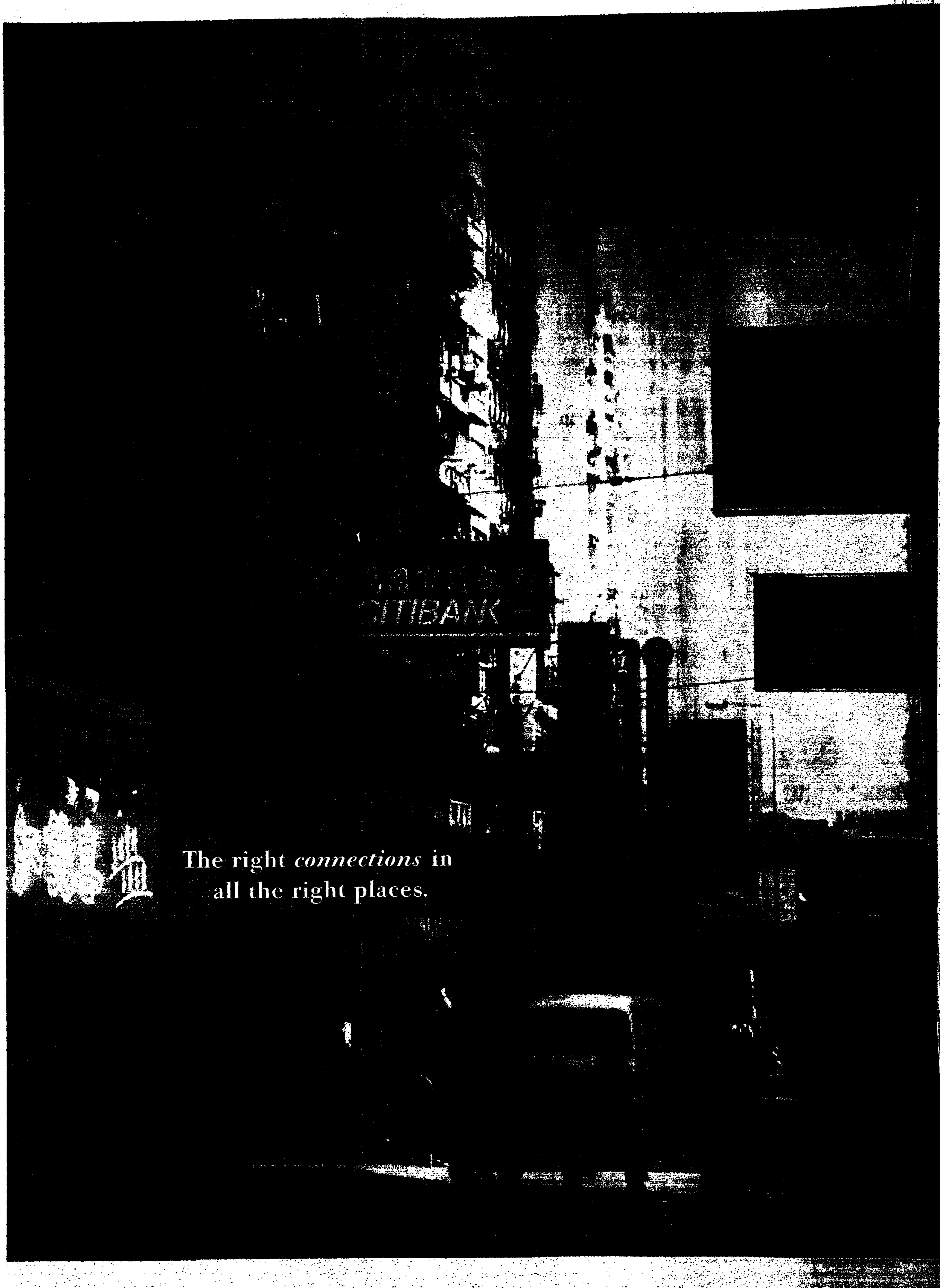
Mr Wolfgang Schlink, vice-president of the international department of Allianz in Los Angeles, explained that the link-up with Fireman's had been necessary to allow Allianz to become a "true global player". "You need a regional presence to service the domestic needs such as workers' compensation, for example, of multinational companies," adds Mr Schlink. By linking with Fireman's, Allianz can provide its clients with a much more in-depth local service, and is able to meet local needs like workers' compensation programmes as well as more complicated international covers.

Mr Schlink says that in view of the concerns about solvency in the US, risks managers are becoming increasingly concerned about the financial strength of their insurers, a fact which could work in Allianz's favour. "More and more risk managers are beginning to analyse insurers' balance sheets," says Mr Schlink.

So far the most significant action taken by head office in Munich has been to order a predictable shift in investment strategy towards the more cautious approach favoured by German companies.

In other areas, Fireman's local management are being given every encouragement to push ahead with their existing underwriting strategy, which concentrates on winning greater quantities of bigger ticket commercial business and shrinking exposures in a number of personal lines markets.

RL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BUSINESS AND THE ENVIRONMENT

John Hunt examines efforts by British Airways to review its environmental performance

A flight to conserve

The environmental problems associated with running a major airline from an international airport are formidable. Emissions from jet aircraft, noise, waste disposal, local planning regulations, traffic congestion and the weight of modern tourism are only a few.

So it is not surprising that when British Airways commissioned an independent review of its environmental performance from consultants Technica the results contained several criticisms.

BA has 50,000 staff worldwide, 30,000 of them at Heathrow where its headquarters are located, and 230 aircraft flying to 70 countries. Even before the report was commissioned an environment programme had already been put in place. It commits BA, over the next three years, to perform better than the requirements of "green" legislation.

But according to the review: "While general awareness and expressed intentions are high, the present understanding by senior management of the commitment required for implementation of the environmental policy is low."

While there was support for one-off "green" initiatives, perception fell short of the fundamental requirement to consider the environmental perspectives of all activities.

On infringements of noise limits BA's performance against other airlines "does not appear to be good" says the study. There was a need for improvements in monitoring and control of hazardous liquids. Waste management tended to be ad hoc and little advantage had been taken of opportunities for waste minimisation and recycling.

In order to improve the situation an environmental council has been set up under David Hyde, BA's director of safety, security and environment, and a leading role will be taken by Hugh Somerville, who came from the oil industry to the new post of head of environment 18 months ago. The council includes the directors of corporate strategy, engineering, flight crew, health services, marketing, public affairs and purchasing.

The intention is to ensure that environmental considerations permeate the company. BA's 200 line managers will be given detailed targets and an annual environmental report will be published to monitor progress and performance.

For instance, in order to encourage energy conservation, the energy bill will be broken down to show the cost of individual management functions and this may later be extended as a system of pricing waste disposal and water use.

Noise is one of the chief complaints against airlines. The Technica report says there is limited scope for further major improvements in aircraft and engine design although BA has regular discussions with Rolls-Royce on quieter engines. "Hush kits" can be fitted but these result in increased fuel consumption and thus lead to more polluting emissions. BA is currently monitoring progress on the kits to see if improvements can be made.

Emissions of the greenhouse gas carbon dioxide, mostly at cruise height, creates a problem. BA emits nearly 12m tonnes of carbon dioxide annually compared with 500m from aviation as a whole. The company's aircraft contribute about 1 per cent of Britain's carbon dioxide emissions.

It has also formed its own database to assess the problem. As large purchasers, the airline can to some extent influence manufacturers' designs towards cleaner engines.

British Airways emissions to the atmosphere from worldwide flying operations

	Tonnes per year
Carbon dioxide	11.7m
Water	4.6m
Hydrocarbons	8,000
Carbon monoxide	18,000
Sulphur dioxide	22,000
Nitrogen oxides	—

Estimates based on British Airways internal data

Already considerable cuts in the quantity of fuel used – and thus reductions in emissions – have been achieved by improved flying procedures. "It's about energy and materials," says Somerville. "If you can save on those you are also doing something to protect the environment."

The amount of waste, from catering facilities preparing 30,000 airline meals a day, and from workshops doing repair and maintenance is tremendous. Somerville has brought in former air stewardess Kim Packer to conduct studies in this area and already the annual waste bill of £1.5m has been reduced by £300,000.

Throw-away items like cups, plates and trays are now replaced by "rotable" types that can be washed and re-used several times before being sent back to the manufacturer for re-processing. BA has permission to release 22 different effluents and many of these come from the electro-plating shed. A study of effluents is being carried out and new state of-the-art equipment will be installed to deal with the various metals which come from electroplating.

In purchasing policy the life-cycle of a product is considered from cradle to grave – the methods of manufacture, the impact on the environment and the eventual disposal.

Leaving asbestos dust to settle

By Hilary de Boerr

The best way to evacuate a building in North America is probably to mention the word asbestos. Since one tiny fibre of the fire-resistant insulating material can kill, that is not surprising.

Asbestos was used in construction up to the mid-1970s, insulating pipes, boilers and ducts, sprayed on steelwork and incorporated in insulating board. It is found in abundance in public buildings and housing in most big cities.

The danger comes when asbestos fibres are released into the environment. Inhaled fibres can cause asbestosis, cancers and mesothelioma. There is no known cure for these diseases.

Throughout the 1980s, western nations developed stringent policies for dealing with asbestos. Some countries, like the US and Canada, required local authorities to dispose of asbestos in places like schools and government buildings.

Some people now believe, however, that the asbestos in buildings might have been safer left where it was. The Environmental Protection Agency in the US published its guidelines for "managing asbestos" last July, admitting that millions of dollars had been spent unnecessarily removing the material.

It recommends instead that the material be encapsulated or enclosed. Removal is recommended only during building demolition or renovation – or if the asbestos is damaged and already releasing fibres.

This sea-change is important because many companies follow the EPA's lead. Britain, France and Belgium are also moving away from widespread removal, recommending that undamaged asbestos be encapsulated, enclosed or simply left alone.

Encapsulation is a process whereby a durable non-toxic coating is painted or sprayed over the asbestos material – locking in the fibres and protecting it for several years from heat, cold and damage. The process maintains the fire-retarding and insulating qualities of asbestos which is still seen as the best material for withstanding high pressure, high temperatures and corrosive gases or liquids. (There are synthetic products available to replace almost every application of asbestos.)

Enclosure means covering the asbestos with panels or walls, clearly marked to identify the dangerous substance.

Both are considerably cheaper than the high cost of removing asbestos. In New York, for example, £300m is being spent to strip asbestos from public buildings including the World Trade Centre and John F Kennedy airport.

In Brussels, the European Commission headquarters is to be demolished because the £70m bill to remove its asbestos is almost as costly as building a new structure. In London, one local council alone has spent £1.2m over the past six years to remove asbestos from its housing stock.

"Even though encapsulation is internationally recognised, asbestos removal companies have continued to push removal for obvious reasons," says Peter Mileham, marketing director of Liquid Plastics, which manufactures an encapsulation product.

Asbestos removal is so expensive – and thus lucrative for removers – because strict codes of practice make it labour intensive and time consuming, and only specially licensed operators are allowed to remove it. The stripped asbestos is costly to dispose of, with many countries no longer willing to accept imports of such harmful waste material.

The most important reason for the change in asbestos guidelines is to prevent further asbestos-related deaths. One recent study estimated that asbestos in buildings would be responsible for only one death a year in the UK compared with one or two deaths per million caused by exposure to asbestos during its removal.

Nevertheless, the public perception that any asbestos is dangerous means removal will probably remain. Flora Madelino, vice-president of Donalco, the Ontario-based asbestos removal contractors, believes another 10 years of removal lie ahead. "There's still a lot of paranoia about. I think there's a lot of asbestos being removed at great expense to the taxpayer that we certainly don't believe needs to be done."

Mining troubles run deep

Kenneth Gooding looks at the industry's response to pressure

Environmental pressures might still be seen by a few industries as an expensive nuisance. But for many mining companies they could be a matter of life or death. So some of the world's biggest mining companies have set up an organisation through which the industry will respond internationally to the growing pressures it faces on health, safety and the environment.

Not surprisingly, the so-called International Council on Metals and the Environment (ICME) sprang from a North American initiative and is based in Ottawa, Canada. The mining companies in North America have been startled and even frightened by the pace at which environmental movement extremists have moved to centre stage. "Mine free by 93" is the slogan one US group adopted.

Moreover, two important mainstream environmental groups are combining in an effort which the US lead industry says will drive it out of business. The US Environmental Protection Agency and the Environmental Defence Fund have combined to tackle what they describe as "the scourge of lead". Their pressure contributed towards the end of asbestos production in the US. Now they have assembled war chests with $230m (£140m) for their latest campaign.

Many big mining and metals companies are already finding out how expensive new environmental standards can be. Aluminium producers, particularly those in North America, are among those most affected. Earlier this year Alcoa, the biggest US aluminium company, and Reynolds Metals, the second-largest, announced extraordinary charges as provisions against future environmental costs. Reynolds made a pre-tax provision of $150m ($91m net) while Alcoa's fourth-quarter 1990 earnings included a $414m ($275m net) charge against future environmental work.

Inco, the western world's biggest nickel group, is spending about $500m to reduce sulphur dioxide emissions from its smelter at Sudbury, Ontario, which was once labelled as the world's worst polluter.

But, while it has been spending money to clean up its act, the mining industry has so far shown no sign of being able to match the effective communication skills of its environmental opponents.

"The extractive industries are generally perceived as being dark, dangerous, dirty, socially unattractive and almost irrelevant to our way of life," says Peter Hackett, a former president of the UK Institution of Mining and Metallurgy and president of the Camborne School of Mines.

"Added to this is the fact that there is no perceived direct contact with the products of the mining industry. Whereas people are familiar with the petroleum sector's main product, which underpins their very freedom of mobility, they are unaware, or just uninterested, in where their vehicles come from and they do not make the less than imaginative leap from the car showroom to the iron mines or from the canned drink to the aluminium smelter," he adds.

Keith Hendrick, the founding chairman of the new ICME and who is also chairman of Noranda Minerals, the Canadian group, admits that while the mining industry worldwide has been involved in research and capital investment dealing with environment and health issues, it has not co-ordinated its experience and resources to address "international issues that go beyond individual and domestic corporate interests in any particular commodity."

The mining industry's efforts so far have been channelled through national mining associations or international organisations devoted to particular metals. The ICME hopes to be able to co-ordinate those efforts.

Gary Nash, the ICME's secretary-general and formerly senior vice-president of the Mining Association of Canada, points out that if the industry is to properly make its case in the environmental debate "it must rely on technical, scientific and economic facts. Its stated position must be substantive."

He also believes the ICME can fill an important vacuum in the industry's dealings with the United Nations Organisation and the Organisation for Economic Co-Operation and Development. This will help the mining industry to provide some input as the developing countries struggle to balance their need for further development with the pressures for protection of the environment. The ICME already has been given formal consultation status with the UN's environmental programme.

There were doubts in the minds of some senior mining executives about whether the industry needed to provide finance for another international body and that perhaps the work could be done by existing bodies. Such doubts certainly existed at the RTZ Corporation, the world's biggest mining company, which was a notable absentee when the ICME was formed in April this year.

However, RTZ has now joined and added its undoubted weight to the ICME which already has 18 member companies from North and South America and Europe. The Japanese say they will join soon are currently choosing the two companies to represent their interests on the Council.

The ICME is holding its first meeting in Toronto this week. Nash says members must decide on priorities for the council for the next few years. Undoubtedly, one of the objectives will be for the ICME to work out a set of environmental guidelines which mining companies should adhere to. "That will help establish the council's credibility," he says.

THE PENSIONS MANAGEMENT INSTITUTE

The following candidates have completed the Associateship examinations of The Pensions Management Institute.

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Mrs S J Andrews	Mr S M Gridley	Mr M D Morrison
Mr A M Ashley Taylor	Mrs L G Griffin-Smith	Mr C W Mullins
Miss P J Austin	Miss C A Hackett	Mr R A Nathan
Mrs J A Averre-Beeson	Mrs E J Hallworth	Miss B H O'Carroll
Mr P J E Baker	Mrs N C Hancock	Mr N Parfrey
Mrs H Beaveridge	Mrs J Hanson	Mrs E A Pearce
Ms A E Bennett	Miss A M Harber	Mr D R Perryman
Mr P W Booth	Miss A P Harrison	Mr J W Power
Mr M W Bradbury	Miss S M Hegarty	Mrs S R Ridley
Mrs P M Brooks	Mrs J D Hooker	Mr P J Ring
Miss S A Brown	Mrs M R Howes	Ms S P Robinson
Mr M Bryan	Miss C J Hulse	Miss J T Rogers
Mr H B A Buck	Miss P James	Miss S B Rogers
Ms Y S Butler	Miss J Johnston	Mr K D Rothwell
Mr S Cameron	Mr S Johnston	Mrs C Rowles
Mr P H Chilcott	Mr A D Jones	Mr P J Rowles
Miss H M Clarke	Mr P Jones	Miss H A Russell
Mr A L Clarkson	Mr M V Kelly	Mr R F Russell
Mrs A J Clegg	Mr D Kershaw	Mr T J Rutter
Mr G R Cohen	Mr S W B Kyle	Mrs J M Samsworth
Mr J R Colegrave	Mrs P M Lane	Mr D M Saunders
Mrs S E Connolly	Mrs R H Lestrade	Mr K N Scott
Miss J M Coutts	Mr M G Lilly	Mr G J Shortman
Miss S E Cox	Mr P A Luckett	Miss J A Smith
Mr P M Cramp	Mr D Maddison	Miss K L Smith
Mr F M Crehan	Mr P Mann	Mr C M J Stanley
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Mr N G P Gibbons	Miss M J McKelvie	Mr E A Townsend
Mrs L C Gough	Mr G C Miller	Mr C L Veck
Mrs J C Grant	Mr I D Moore	Miss M Walker
		Mr J N Woodman

July 1991

COMMODITIES AND AGRICULTURE

Recession fails to restrain metals output

Many analysts suggest that prices have further to fall, writes **Kenneth Gooding**

HOW THE metal markets have changed. Eighteen months ago the slightest hint that miners at Chuquicamata in Chile, the world's biggest copper mine, might go on strike would have sent consumers scrambling for metal and copper prices would have roared skywards.

But when the Chuqui miners actually did go on strike on July 1, apart from a brief flurry of panic buying from Japan, the dispute did nothing much more than prop up a copper price which otherwise might have been sinking. And news that the strike had been settled last weekend brought only a moderate downturn in the market.

This reaction to the Chuquicamata strike reflects how the balance of power in the metal markets has lurched heavily towards consumers this year.

Consumers have watched the prices of those metals traded on the London Metal Exchange drop on average by about 10 per cent in the first half of 1991. In aggregate, base metal prices have not been so low since 1987.

Prices have fallen steadily from the peak they reached about the middle of 1988. Aluminium has come down from US$1.60 a lb to about 60 cents; nickel was nearly $10 and is down to $4 a lb; zinc reached 80 cents a lb and is now 50 cents. Lead peaked later, in 1990, at 60 cents and then fell very sharply to 27 cents a lb. Tin has been re-quoted on the LME only since the summer of 1989 since when it has slumped from over $4 a lb to about $2.50.

By these standards copper, the most heavily traded metal, has been resilient. It climbed to nearly $1.70 a lb during the boom and is still hanging on at about $1 a lb, a good price for copper.

Another sure sign that producers are on the defensive came on May 17 when for the first time in nearly five years all six LME metals were in contango. This is when the price of metal for immediate delivery is below that of metal for delivery in three months and essentially implies that adequate supplies are available to the market.

(occasioned by falling domestic demand and the need for foreign exchange) that prevented another big shortfall of copper in western markets in 1990."

Mr Phillip Crowson, senior economic adviser at the RTZ Corporation, the world's biggest mining group, says the Soviet shipments upset the metals industry's calculations.

London Metal Exchange Copper and Aluminium

	1991	1990	1989	1988
Mid-July stocks (tonnes)				
Copper	251,100	46,450	74,225	103,725
Aluminium	458,275	163,025	130,125	119,100
Mid-July prices (per tonne)				
Copper	£1,341	£1,527	£1,500	£1,248.50
Aluminium	$1,306.50	$1,540	$1,822	$2,550

Many analysts suggest that prices have further to fall. The Metals & Minerals Research Services consultancy group, for example, says prices on average are likely to be down by 17 to 18 per cent from the 1990 levels by the end of this year. In real terms that would be a 20 per cent drop.

Recession in the Anglo-Saxon countries, now creeping into France, Italy and Scandinavia, and a disturbing fall in the rate of growth in those economic powerhouses, Germany and Japan, is mainly responsible.

Another factor has been that metal sales from the Soviet Union and former eastern bloc countries – or in some cases cuts in imports – have played havoc with supply and demand balances. For example, according to MMRS, copper imports to the west from the eastern bloc jumped from 140,000 to 250,000 tonnes last year and "it was principally the share increase in eastern bloc sales

"If the Soviet material disappeared, the market would be transformed," he suggests.

One feature of the present market situation is that while demand for metals has held up reasonably well, so has supply and, with additions to capacity coming into production, most metals are moving into supply surpluses this year.

There has been marked reluctance on the part of producers to cut output. Partly this is because many economic forecasts suggested that the recession would not be particularly deep or particularly long. Moreover, for most producers, slowing or cutting output is expensive.

As Mr Nick Moore, analyst at Ord Minnett, part of the Westpac banking group puts it: "Why embark on costly and politically unfavourable capacity cuts if in a short while economic growth is set to surge?"

The lack of producer restraint has sent metal stocks soaring – LME stocks of aluminium and zinc have never been higher. This could well hold back prices when metals demand picks up. Mr Moore says: "The real risk is that, as in the early 1980s, a substantial stock overhang suppresses upward price potential."

Inevitably this raises the question of whether the metal producers are heading for a slump as horrendous as those seen in the 1970s and early 1980s. They were preceded by two bull markets that ended with prices falling sharply and remaining depressed for years.

Analysts insist, however, that history will not repeat itself for a number of important reasons. For instance, demand for metals is better-spread around the world, with the newly industrialised countries accounting for a bigger proportion of the total.

Substitution of other materials for metals seems to have gone almost as far as it has to go. At the same time, capacity utilisation rates have been very high and supply problems present, are likely to remain a prominent feature of the metals markets.

Also stocks have been rebuilding from very low – even dangerously low – levels. Mr Robin Bhar, analyst with Carr Kitcat & Aitken, part of the Banque Indosuez Group, points out that in the early 1970s and 1980s there were 1m tonnes of copper in stock around the world and 6m to 7m tonnes of aluminium. He says: "This made recovery from the slump very difficult, particularly as there was also much spare production capacity at that time. That spare capacity does not exist today."

Another important aspect is raised by RTZ's Mr Crowson. "The mining industry is in much better financial shape than for many years," he says. Companies used the windfall profits collected in the late 1980s to pay off debt and rebuild balance sheets.

"Management is much more competent at all levels and better able to cope with this downturn," Mr Crowson adds.

There is a widespread expectation that the industry will be managing in adversity for some time to come. MMRS suggests, for example, that an incipient revival of the world economy should see metals prices in real terms recover only by a relatively modest 10 to 11 per cent in 1992.

Mr Bhar at Carr Kitcat says that aluminium, because it is used in such a wide variety of consumer goods, is the metal to watch. It lead the way into the recession and should lead the way out. Other metals usually lag six to nine months behind aluminium going into or out of downturns, he points out.

At RTZ, Mr Crowson admits to being "slightly nervous about the rest of 1991 and next year. The German economy is now facing problems and Japanese growth is easing. My gut feeling is that most forecasters are too optimistic about 1992 prices. Even if the US economy picks up, it won't necessarily be reflected in metals prices".

He also cautions that, as far as the metals markets are concerned, "the Soviet Union and China are the jokers in the pack. What's happening there? What will they do with their metals?"

LME WAREHOUSE STOCKS
(As at Monday's close)
tonnes

Aluminium	+6,750	to 458,275
Copper	−11,47	to 251,100
Lead	+150	to 83,975
Nickel	−378	to 2,418
Zinc	+275	to 116,125
Tin	+25	to 14,310

Soviet Union cuts taxes to boost oil and gas exports

THE SOVIET government approved a package of measures on Tuesday to boost oil and natural gas exports, including a cut in export taxes, the independent news agency Interfax said, reports Reuters from Moscow.

The measures, costing the state an estimated R15bn roubles ($8.3bn at the commercial exchange rate), were intended to solve the energy sector's problems this year, Prime Minister Valentin Pavlov was quoted as saying.

Soviet oil output, the world's biggest, has been falling in recent years because of deteriorating infrastructure, backward technology, poor management and lack of production incentives.

Interfax said the new export tax for the oil and gas industry would be 3 per cent. Taxes on crude oil and natural gas exports were set in January at 40 per cent, while the tax on oil products was fixed at 35 per cent.

Soviet export taxes are calculated as a percentage of the foreign trade value of the goods converted into roubles at the commercial exchange rate.

Saudi Arabia will demand a 500,000-barrels-a-day jump in its oil production quota at the next ministerial meeting of the Organisation of Petroleum Exporting Countries, an official close to the Saudi delegation said yesterday, reports Reuters.

OPEC Ministers are due to meet on September 24 in Geneva or Paris to decide output levels for the final quarter.

The Saudi demand is built on expectations of rising demand for Opec oil, with little Iraqi or Kuwaiti oil on the market. "Saudi Arabia will ask for 8.5m [b/d] and it expects demand [for Opec oil] in the fourth quarter to be 24m [b/d]," the official said. He estimated that Saudi output in the third quarter would be the same as in the second quarter at 8.03m b/d. Planners at Saudi Aramco expect the state-owned oil company to produce 8.2m b/d. This plus the Saudi share of production from the Neutral Zone between Kuwait and Saudi Arabia would take the total output close to 8.5m b/d, an industry source in Dhahran said.

Interfax said the government would extend bank credits of R7.5bn to oil and gas producing enterprises.

"As for the future of the fuel and power complex in general, its problems must be discussed by the [Soviet] republics," Mr Pavlov was quoted as saying.

A new Union Treaty, redefining areas of political and economic jurisdiction between central and republican authorities, is being negotiated and calls for joint financing and control over the energy sector.

Interfax said Soviet oil production in the first six months of this year was estimated at 262m tonnes, almost half of the total state supply order for the year of 547m tonnes.

Output fell to 570m tonnes last year from 607m tonnes in 1989 and industry experts have predicted further declines.

Interfax put oil exports in January to June 1991 at 30m tonnes. SovEkon, a new independent research group in Moscow, estimated exports would drop to between 50m and 55m tonnes this year from the 1990 level of 108.6m tonnes.

Vanadium mine planned for 1993

By Kenneth Gooding, Mining Correspondent

AUSTRALIA'S FIRST vanadium mine will come into production early in 1993, the owners say confidently. The vast resource, at Windimurra, near Mount Magnet in Western Australia, contains enough vanadium to keep the total world market supplied for decades, according to Mr Roderick Smith, chairman of Precious Metals Australia, which owns 100 per cent of the project.

However, PMA intends to restrict annual output to about 3,700 tonnes of vanadium pentoxide and take a market share of 8 per cent.

Mr Smith said that his company had firm offers from consumers and traders wanting to buy the entire Windimurra output between them in order to diversify supply away from South Africa, which dominates the industry.

Vanadium is classified as a strategic metal and is used mainly to increase the strength of structural steels used for such things as bridges, pipelines, pressure vessels, high-rise buildings and offshore platforms. It is also used extensively in steel for reinforcing bars.

Western world capacity is roughly 58,000 tonnes a year and South Africa contributes more than two-thirds. The market is dominated by Highveld Steel and Vanadium Corporation, which can produce 25,000 tonnes a year.

Mr Smith suggested PMA's costs would be lower than those of the South Africans because the nature of the ore at Windimurra – soft and oxidised – would make mining a simple, open-pit operation and milling would also be easy. In comparison, the South African companies had to drill and blast their very hard ore which also required extensive crushing and grinding.

He estimated Windimurra's cash costs would be about US$1.70 a lb compared with Highveld's $2.90 a lb.

Water was available at Windimurra, Mr Smith said, and PMA had its own coal deposit 265 km (160 miles) away to provide energy. Vanadium pentoxide would be taken twice a week by road some 500 km to Perth for shipment in containers to Rotterdam.

The Windimurra project is expected to cost between A$40m and $50m. Mr Smith, in London to place some shares in PMA, which is quoted on the Australian stock exchange, said financing would be by A$15m of equity and the rest by non-recourse US dollar loans. Based on present low prices for vanadium pentoxide and the forecast annual output, the project was forecast to yield A$32m a year, including $4m from the sale of by-product sodium sulphate.

MacSharry reforms 'could benefit Welsh farmers'

By Anthony Moreton, Welsh Correspondent

FARMING IN Mid Wales faces an uncertain future with lower incomes, falling numbers earning a living from the land and increasing part-time working. But if the European Commission's proposals on the future of farming in the Community are accepted, against the wishes of the British government, then Mid Wales could gain significant benefits.

These are the main conclusions of a study commissioned by the Development Board for Rural Wales, a quango set up to regenerate the economy of a region that covers 40 per cent of the country land mass but has less than 10 per cent of the 2.8m population.

The report, Future Agricultural Prospects in Mid Wales, was prepared by Professor David Bateman, of the department of agricultural economics at University College of Wales, Aberystwyth.

Agriculture was vital to the area, Professor Bateman said in Builth Wells yesterday. It contributed £257m to the economy which, when outgoings such as bought-in products, rent, interest payments and depreciation were discounted, still provided £40m for the 14,400 working full-time in the industry.

Professor Bateman criticised Mr John Gummer, the UK's Minister of Agriculture, for his "short-sighted" stance in Brussels. "He is being a nationalist in protecting policies which are solely British," he said. Many of the proposals advocated by Mr Ray MacSharry, the EC agriculture commissioner, could benefit Wales, which has a large proportion of the sort of small farms that the MacSharry reform plan is designed to help.

Mr Glyn Davies, chairman of the board, accepted the report's premise that although agricultural policy lay outside the board's remit it should have a view on the direction the industry was moving. It was necessary, he said, to consider rural matters and rural regeneration as a totality in which agriculture was a component part.

He unveiled three initiatives that would bring immediate assistance to the industry. The board is to support a £1m abattoir for slaughtering lambs at Llanidloes; help provide business advice for the industry through the Powys Training and Enterprise Council; and provide a grant of £160,000 to Wynnstay and Clwyd Farmers for a food-processing system. The £15,000-a-year backing for Food Promotion Wales, a body set up to promote Welsh food, is also to be increased to £100,000 over the next three years.

The Bateman report points out that neither alternative, "green", farming nor on-farm diversification is a solution to the area's problems.

Almost the whole of the farming economy is centred on cattle, sheep and milk – "a very narrow and vulnerable base". This base narrowed even further during the 1980s.

A further problem, according to Professor Bateman is that "a very large part of total output is directly accounted for by government support". Grants amount to at least £50m, easily exceeding the £40m income generated by the industry.

"This dependence puts Wales in a different category from most other areas in Britain or, say, New Zealand, a country sometimes referred to when subsidy-free agriculture is being discussed," Professor Bateman said.

Yet farming has social importance as well as economic importance and he queried the sense of having an environmental policy for the countryside without a social one.

Future Agricultural Prospects in Mid Wales. A report to the Development Board for Rural Wales by Professor David Bateman. From DBRW, Ladywell House, Newtown, Powys, SY16 1JB.

MINOR METALS PRICES

Prices from Metal Bulletin (last week's in brackets).

ANTIMONY: European free market 99.6 per cent, $ per tonne, in warehouse, 1,620-1,650 (same).

BISMUTH: European free market, min. 99.99 per cent, $ per lb, tonne lots in warehouse, 2.90-3.20 (same).

CADMIUM: European free market, min. 99.5 per cent, $ per lb, in warehouse, 1.30-1.50 (1.10-1.40).

COBALT: European free market, 99.5 per cent, $ per lb, in warehouse, 13.00-13.40 (13.00-13.50).

MERCURY: European free market, min. 99.99 per cent, $ per 76 lb flask, in warehouse, 80-95 (80-100).

MOLYBDENUM: European free market, drummed molybdic oxide, $ per lb Mo, in warehouse, 2.35-2.40 (2.37-2.42).

SELENIUM: European free market, min 99.5 per cent, $ per lb, in warehouse, 4.80-5.40.

TUNGSTEN ORE: European free market, standard min. 65 per cent, $ per tonne unit (10 kg) WO_3, cif, 56-60 (same).

VANADIUM: European free market, min. 98 per cent, $ a lb V_2O_5, cif, 2.40-2.50 (same).

URANIUM: Nuexco exchange value, $ per lb, U_3O_8, 9.05 (same).

WORLD COMMODITIES PRICES

MARKET REPORT

London cocoa futures came under pressure from chart-based selling yesterday. Dealers said the recent failure of several attempts to breach resistance in the £620 to £625 a tonne area for the September contract helped to spark the sell-off. It gathered momentum as stops were triggered in New York when September fell below $950 a tonne. New York chartists said the next support levels are seen at $900 a tonne and the 18-year low of $893 a tonne recorded last week. In Chicago talk that Moscow had bought US maize, soyabeans and soyameal using recent US credit allotments sent futures soaring in early trading. On the London Metal Exchange news of an 11,475-tonne fall (bigger than expected) in warehouse stocks of copper underpinned prices. This metal is said to be either destined for China or for customers of Chile. Aluminium stocks hit a new record of 458,275 tonnes, but prices rallied with copper. Dealers said the continued deliveries of aluminium into LME warehouses have been discounted. The recent tightness in the nickel market flared up again, adding $40 a tonne to the premium for cash metal over three-month. LME stocks fell to an eight-month low.

Compiled from Reuters

London Markets

SPOT MARKETS

Crude oil (per barrel FOB)		+ or -
Dubai	$16.50-6.55	+.225
Brent Blend (dated)	$19.95-20.05	+.375
Brent Blend (Sep)	$19.85-9.90	+0.30
W.T.I. (1 pm est)	$21.65-1.70	+0.05
Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$241-243	-1
Gas Oil	$190-191	+2
Heavy Fuel Oil	$72-74	+2
Naphtha	$189-190	+2.5
Petroleum Argus Estimates		
Other		+ or -
Gold (per troy oz)♣	$368.6	-0.10
Silver (per troy oz)♣	439.0c	
Platinum (per troy oz)	$378	+0.25
Palladium (per troy oz)	$94.70	-0.55
Aluminium (free market)	$1845	
Copper (US Producer)	102.75	+0.25
Lead (US Producer)	50c	
Nickel (free market)	-	
Tin (Kuala Lumpur market)	16.39r	-0.06
Tin (New York)	263c	
Zinc (US Prime Western)	62c	
Cattle (live weight)†	107.78	+0.68*
Sheep (dead weight)†	122.53p	+4.04*
Pigs (live weight)†	66.71p	-2.25*
London daily sugar (raw)	$278x	-3
London daily sugar (white)	$318x	-2
Tate and Lyle export price	£278.5	-2.5
Barley (English feed)	103.5z	-0.60
Maize (US No. 3 yellow)	£181.5	
Wheat (US Dark Northern)	-	
Rubber (Aug)♥	53.75p	-0.25
Rubber (Sep)♥	54.25p	-0.25
Rubber (KL RSS No 1 Aug)	229.0m	-1.5
Coconut oil (Philippines)§	$470y	-15
Palm Oil (Malaysian)§	$340q	
Copra (Philippines)§	$300.0z	-20
Soyabeans (US)	£163	-1
Cotton "A" Index	80.20c	
Wooltops (64s Super)	387p	

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. q-Sep/Dec t-Jul/Sep u-Jul x-Jul/Aug y-Aug/Sep z-Aug. †Meat Commission average fatstock prices. * change from a week ago. ♥London physical market. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents/kg.

SUGAR – London FOX ($ per tonne)

Raw	Close	Previous	High/Low	
Aug	240.00	232.40	231.40	229.80
Oct	200.60	204.60	204.00	195.80
Dec	194.60	195.00	192.00	187.00
Mar	189.60	191.00	190.20	185.00
May	192.60	193.40	188.00	
Aug	196.60	197.40	192.00	
Oct	198.60	200.00	195.00	

White	Close	Previous	High/Low	
Aug	320.0	316.9	318.0	309.3
Oct	274.5	276.9	277.0	272.5
Dec	265.9	268.5	264.2	
Mar	268.4	269.0	268.0	264.3
May	269.0	271.0	268.2	268.8

Turnover: Raw 976 (468) lots of 50 tonnes. White 3683 (3184)
Paris- White (FFr per tonne): Oct 1679 Dec 1629

CRUDE OIL – IPE $/barrel

	Latest	Previous	High/Low	
Aug	19.77	19.53	19.83	19.60
Sep	19.81	19.51	19.87	19.60
Oct	19.77	19.51	19.81	19.59
Nov	19.70	19.52	19.70	19.57
Dec	19.64	19.41	19.64	19.55
Feb	19.38		19.38	
IPE Index	19.69	19.23	19.69	

Turnover 20470 (17979)

GAS OIL – IPE $/tonne

	Close	Previous	High/Low	
Aug	188.50	184.25	187.00	183.00
Sep	187.25	185.00	187.50	184.00
Oct	188.75	186.75	188.75	185.50
Nov	190.00	188.50	190.00	187.50
Dec	190.50	189.00	190.50	187.75
Jan	186.50	185.50	186.50	186.00
Mar	179.75	175.50	180.50	
Apr		172.00		

Turnover 18006 (18046) lots of 100 tonnes

JUTE
C and f Dundee; BTC US$470, BWC US$470, BTD US$440, BWD US$440. C and f Antwerp; BTC US$ 465, BWC US$465, BTD US$435,BWD US$430.

COTTON
LIVERPOOL-Spot and shipment sales for the week ending 12 July 1991 amounted to 107 tonnes against 53 tonnes in the previous week. Slow trading persisted with dealings in American and Turkish off take.

COCOA – London FOX £/tonne

	Close	Previous	High/Low	
Jul	582	590	596	584
Sep	604	618	623	600
Dec	641	658	662	638
Mar	680	690	700	676
May	703	716	717	698
Jul	724	734	740	722
Sep	744	754	758	740

Turnover: 4286 (4461) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for Jul 15 784.04 (778.12) 10 day average for Jul 16 764.77 (763.48)

COFFEE – London FOX £/tonne

	Close	Previous	High/Low	
Jul	535	531	533	528
Sep	553	553	555	551
Nov	572	573	575	571
Jan	591	593	591	586
Mar	604	603	604	602

Turnover2113 (3880) lots of 5 tonnes
ICO indicator prices (US cents per pound) for Jul.15 : Comp. daily 64.19 (65.22). 15 day average 65.32 (65.39)

POTATOES – London FOX £/tonne

	Close	Previous	High/Low	
Apr	111.4	109.9	111.5	110.0

Turnover 134 (116) lots of 40 tonnes.

SOYAMEAL – London FOX £/tonne

	Close	Previous	High/Low
Dec	129.50	130.00	129.50

Turnover 20 (17) lots of 20 tonnes.

FREIGHT – London FOX $10/index point

	Close	Previous	High/Low	
Jul	1510	1469	1510	1465
Aug	1515	1455	1520	1455
Oct	1600	1542	1600	1542
Jan	1598	1545	1598	1545
BFI	1637	1542		

Turnover 178 (169)

GRAINS – London FOX £/tonne

Wheat	Close	Previous	High/Low	
Sep	111.75	111.75	111.75	
Nov	115.10	115.10	115.10	115.00
Mar	122.00		122.00	
May	125.25		125.25	

Barley	Close	Previous	High/Low	
Sep	109.65	109.65	109.65	109.65
Nov	113.40	113.35	113.35	

Turnover: Wheat 65 (83). Barley 24 (19).
Turnover lots of 100 tonnes.

PIGS – London FOX (Cash Settlement) p/kg

	Close	Previous	High/Low
Jul	91.0	92.0	91.0
Aug	90.0	91.0	89.5
Sep	95.0	95.0	94.0
Feb	100.0	100.0	99.0

Turnover:37 (106) lots of 3,250 kg

MGMI – London FOX

	Close	Prev.	High	Low	Vol
Indx	139.32	138.96			
Jul	140.90	139.20	140.90	140.60	105
Sep	141.40	140.00	141.40	140.80	110
Dec	141.40	140.90	141.80	141.40	75

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)

	Close	Previous	High/Low	AM Official	Kerb close	Open interest
Aluminium, 99.7% purity ($ per tonne)						Total daily turnover 19,583 lots
Cash	1306-7	1302-4	1306/1302	1301-2		
3 months	1339-40	1335-7	1343/1334	1334-5	1343-4	98,569lots
Copper, Grade A (£ per tonne)						Total daily turnover 30,197 lots
Cash	1340-2	1329-30		1330-1		
3 months	1354-5	1345-5.5	1357/1345	1346-6.5	1356-7	131,367lots
Lead (£ per tonne)						Total daily turnover 3,783 lots
Cash	329-31	327-9	329.50/329	329-9.25		
3 months	339-40	337-7.5	339.50/339	339-9.5	339-40	17,705lots
Nickel ($ per tonne)						Total daily turnover 2,324 lots
Cash	8610-20	8510-20		8580-600		
3 months	8570-75	8510-15	8620/8525	8570-1	8600-10	13,196lots
Tin ($ per tonne)						Total daily turnover 1,640 lots
Cash	5645-55	5640-50	5642	5642-45		
3 months	5735-40	5725-30	5745/5736	5735-40	5735-40	7,142lots
Zinc, Special High Grade ($ per tonne)						Total daily turnover 8,560 lots
Cash	1059-61	1054-6	1055	1055-6		
3 months	1073-4	1068-9	1077/1068	1067-8	1075-7	27,939lots

LME Closing £/$ rate:
SPOT: 1.6455 3 months: 1.6264 6 months: 1.6115 9 months: 1.5991

LONDON BULLION MARKET
(Prices supplied by N.M.Rothschild)

Gold (fine oz)	$ price	£ equivalent
Close	368.60-369.00	224.00
Opening	368.60-369.00	
Morning fix	368.50	223.387
Afternoon fix	368.70	223.387
Day's high	368.80-369.20	
Day's low	368.00-368.40	

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	5.47	6 months	5.38
2 months	5.44	12 months	5.36
3 months	5.44		

Silver fix	p/fine oz	US cts equiv
Spot	264.75	437.25
3 months	271.95	443.65
6 months	279.05	451.10
12 months	293.15	466.95

GOLD COINS
(Prices supplied by Engelhard Metals)

	$ price	£ equivalent
Krugerrand	368.75-369.75	223.50-224.50
Maple leaf	376.75-377.75	228.25-228.75
New Sovereign	88.75-89.75	53.75-54.75

TRADED OPTIONS

Aluminium (99.7%)	Calls		Puts	
Strike price $ tonne	Sep	Dec	Sep	Dec
1250	88	128	9	20
1350	27	66	47	58
1450	5	29	124	116
Copper (Grade A)	**Calls**		**Puts**	
2100	130	140	17	56
2200	65	88	50	101
2300	26	51	110	161
Coffee	**Sep**	**Nov**	**Sep**	**Nov**
500	55	78	2	5
550	16	42	15	19
600	3	70	50	47
Cocoa	**Sep**	**Dec**	**Sep**	**Dec**
625	42		74	30
650	1	45	88	49
675	0	33	122	
Brent Crude	**Sep**	**Oct**	**Sep**	**Oct**
1900		95	18	
1950	56	67	39	
2000	35	45		

New York

GOLD 100 troy oz.; $/troy oz.

	Close	Previous	High/Low	
Jul	368.9	369.1	0	0
Aug	369.8	370.1	370.0	369.0
Sep	371.5	371.8	0	0
Oct	373.4	373.7	373.8	372.9
Dec	376.9	377.2	377.1	376.3
Feb	380.5	380.6	0	0
Apr	383.9	383.9	383.5	383.4
Jun	387.4	3387.3	387.0	387.0
Aug	391.0	390.9	0	0

PLATINUM 50 troy oz; $/troy oz.

	Close	Previous	High/Low	
Jul	378.0	378.5	377.0	376.0
Oct	382.5	382.5	384.5	381.0
Jan	386.7	386.6	387.0	386.0
Apr	390.4	390.8	389.5	389.5
Jul	394.2	394.6	395.0	395.0
Oct	400.7	401.1	0	0

SILVER 5,000 troy oz; cents/troy oz.

	Close	Previous	High/Low	
Jul	436.7	435.2	437.5	436.0
Aug	437.3	435.8	436.0	436.0
Sep	440.3	438.8	441.5	437.0
Dec	448.0	446.5	449.0	445.0
Jan	449.8	448.4	0	0
Mar	456.1	454.8	455.5	456.0
May	461.7	460.5	0	0
Jul	467.3	466.2	0	0
Sep	473.4	472.4	0	0
Dec	482.9	482.1	483.0	480.0

HIGH GRADE COPPER 25,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jul	98.65	98.30	98.95	98.50
Aug	98.65	98.25	0	0
Sep	98.65	98.25	98.90	98.25
Oct	98.35	98.00	0	0
Nov	98.05	97.65	0	0
Dec	97.75	97.35	97.90	97.25
Jan	97.35	96.95	0	0
Feb	96.95	96.55	97.00	97.00
Mar	96.55	96.20	96.80	96.70
Apr	96.15	95.80	0	0

CRUDE OIL (Light) 42,000 US galls $/barrel

	Latest	Previous	High/Low	
Aug	21.89	21.47	21.92	21.63
Sep	21.65	21.31	21.72	21.45
Oct	21.48	21.21	21.53	21.33
Nov	21.35	21.10	21.37	21.20
Dec	21.18	20.98	21.22	21.08
Jan	21.04	20.84	21.07	20.95
Mar	20.76	20.57	20.74	20.70
Apr	20.65	20.48	0	0
May	20.55	20.37	20.49	20.45

HEATING OIL 42,000 US galls, cents/US galls

	Latest	Previous	High/Low	
Aug	5965	5906	5985	5940
Oct	6140	6090	6150	6110
Nov	6245	6193	6255	6220
Dec	6320	6284	6345	6305
Jan	6320	6289	6340	6305
Mar	5930	5884	5940	5925
Apr	5685	5664	5700	5680
May	5520	5494	5510	5500

COCOA 10 tonnes;$/tonnes

	Close	Previous	High/Low	
Jul	888	918	915	885
Sep	927	967	960	923
Dec	981	1016	1010	974
Mar	1030	1059	1051	1025
May	1058	1088	1078	1053
Jul	1087	1116	1106	1101
Sep	1110	1146	1134	1110
Dec	1152	1186	1166	1149
Mar	1182	1216	0	0
May	1214	1248	0	0

COFFEE "C" 37,500lbs; cents/lbs

	Close	Previous	High/Low	
Jul	81.65	81.90	82.00	81.50
Sep	83.10	83.25	83.90	83.00
Dec	86.66	86.65	87.20	86.40
Mar	89.86	89.80	90.30	89.60
May	92.50	92.05	92.60	92.50
Jul	95.05	94.85	95.00	94.50
Sep	97.15	96.65	0	0
Dec	2.00	99.00	0	0

SUGAR WORLD "11" 112,000 lbs; cents/lbs

	Close	Previous	High/Low	
Oct	8.81	9.05	9.01	8.65
Mar	8.52	8.64	8.58	8.38
May	8.59	8.68	8.60	8.45
Jul	8.69	8.76	8.65	8.65
Oct	8.78	8.83	0	0

COTTON 50,000; cents/lbs

	Close	Previous	High/Low	
Oct	69.76	69.78	69.85	68.58
Dec	69.40	70.57	69.48	68.42
Mar	70.73	71.20	70.80	69.90
May	71.63	68.77	71.50	70.70
Jul	72.05	67.65	71.60	71.45
Oct	69.15	0	0	0
Dec	68.00			

ORANGE JUICE 15,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jul	119.25	118.25	119.50	118.75
Sep	118.90	118.50	119.00	117.70
Nov	118.05	117.40	118.30	117.00
Jan	117.75	117.65	118.00	117.25
Mar	118.10	117.75	117.90	117.60
Jul	118.65	118.45	0	0

INDICES

REUTERS (Base: September 18 1931 = 100)

July 16	July 15	mnth ago	yr ago
1710.9	1725.0	1799.6	1820.0

DOW JONES (Base: Dec. 31 1974 = 100)

	July 15	July 12	mnth ago	yr ago
Spot	124.07	124.98	130.32	132.06
Futures	132.37	122.78	128.75	131.92

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel

	Close	Previous	High/Low	
Jul	547/4	531/4	549/0	539/0
Aug	543/4	528/6	544/0	534/2
Sep	544/2	528/6	545/0	536/0
Nov	549/0	534/4	550/0	541/0
Jan	557/6	544/0	559/0	551/0
Mar	569/0	553/4	569/4	[illegible]
May	577/4	562/6	577/4	570/0
Jul	580/4	569/4	583/0	575/0

SOYABEAN OIL 60,000 lbs; cents/lb

	Close	Previous	High/Low	
Jul	18.86	18.45	18.86	18.58
Aug	18.84	18.44	18.85	18.59
Sep	19.02	18.59	19.04	18.78
Oct	19.21	18.79	19.23	18.96
Dec	19.67	19.12	19.72	19.27
Jan	19.85	19.30	19.85	19.48
Mar	20.10	19.60	20.10	19.81
May	20.17	19.81	20.35	[illegible]
Jul	20.16	19.95	20.43	[illegible]

SOYABEAN MEAL 100 tons; $/ton

	Close	Previous	High/Low	
Jul	167.5	163.1	167.8	[illegible]
Aug	168.1	164.2	168.7	166.0
Sep	168.0	164.4	168.7	165.5
Oct	167.5	164.2	168.5	[illegible]
Dec	168.8	165.1	170.0	166.9
Jan	169.5	166.2	170.5	[illegible]
Mar	171.5	168.2	172.0	170.5
May	173.5	170.0	173.5	[illegible]
Jul	174.5	171.0	175.0	172.5

MAIZE 5,000 bu min; cents/56lb bushel

	Close	Previous	High/Low	
Jul	247/0	237/4	247/0	[illegible]
Sep	238/0	228/0	238/0	[illegible]
Dec	239/2	229/4	239/4	[illegible]
Mar	246/4	237/4	247/0	[illegible]
May	251/0	243/0	251/4	[illegible]
Jul	255/4	246/0	256/4	[illegible]
Sep	246/0	241/0	0	0
Dec	246/0	241/0	246/0	[illegible]

WHEAT 5,000 bu min; cents/60lb-bushel

	Close	Previous	High/Low	
Jul	270/0	266/0	270/0	[illegible]
Sep	274/4	271/2	278/4	[illegible]
Dec	287/6	282/2	290/4	[illegible]
Mar	291/0	288/6	294/4	[illegible]
May	290/0	286/0	291/4	[illegible]
Jul	284/0	282/0	287/4	[illegible]

LIVE CATTLE 40,000 lbs; cents/lbs

	Close	Previous	High/Low	
Aug	73.80	73.85	73.85	[illegible]
Oct	75.45	75.65	75.65	[illegible]
Dec	76.10	76.15	76.15	[illegible]
Feb	75.30	75.35	75.32	[illegible]
Apr	75.67	75.70	75.77	75.60
Jun	73.77	73.90	73.80	[illegible]

LIVE HOGS 30,000 lb; cents/lbs

	Close	Previous	High/Low	
Jul	57.10	56.65	57.20	[illegible]
Aug	51.37	51.12	51.60	[illegible]
Oct	44.55	44.07	44.65	[illegible]
Dec	44.35	43.90	44.40	[illegible]
Feb	44.35	43.92	44.40	43.55
Apr	42.50	42.05	42.50	42.00
Jun	46.60	46.60	46.80	[illegible]
Jul	46.50	46.45	46.60	[illegible]

PORK BELLIES 40,000 lbs; cents/lb

	Close	Previous	High/Low	
Jul	45.35	44.90	45.40	[illegible]
Aug	43.62	47.90	43.90	[illegible]
Feb	48.45	48.77	48.90	[illegible]
Mar	48.10	48.40	48.50	47.70
May	48.90	48.90	0	48.70

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LONDON STOCK EXCHANGE

FT-SE 100 Index closes at new peak

By Terry Byland, UK Stock Market Editor

THE UK stock market closed at a new peak yesterday, as investors showed increasing optimism for a recovery in the world and UK economies in the second half of this year. The latest gain in the London stock market raised hopes that it might be on the brink of decisively breaking out of the trading range established over the past three months.

Once again, equities were led by the stock index futures and trading between the futures and the underlying stocks accounted for a significant proportion of yesterday's market turnover.

The final reading put the FT-SE Index at 2,556.8, with the gain of 24.3 on the day taking it above the previous record close of 2,545.3, achieved on April 5.

Account Dealing Dates		
*First Dealings:		
Jul 1	Jul 15	Jul 29
Option Declarations:		
Jul 11	Jul 25	Aug 8
Last Dealings:		
Jul 12	Jul 26	Aug 9
Account Day:		
Jul 22	Aug 5	Aug 19

*New-time dealings may take place from 8.30 am two business days earlier.

The recovery of confidence in the economic outlook was encouraged by reports that the Group of Seven ministers, meeting in London, believe that the world economy will begin to lift out of recession in the second half of the year. Sentiment was also helped at the close when Mr Alan Greenspan, chairman of the Federal Reserve, referred in Washington to signs that the US recession is over.

Equities opened higher, despite desultory performances overnight from New York and Tokyo, and the upward impetus gathered force when the futures markets opened and the FT-SE September contract quickly raced to an 18 point premium against its fair value level.

The stock market extended its opening gain to show a rise of 28.7 on the Footsie for a new intra day peak of 2,561.2 at 9am, which proved to be the best of the day. Dealers reported significant trading in the blue chip stocks as the big securities houses, which are big players in futures, operated basket trades, where stocks are bought and sold to offset positions in the FT-SE futures contract.

By the close of trade, the premium on the Footsie September contract had been reduced to around 6 points above fair value, which is the estimated premium to allow for dividend flows and carrying costs on the stocks in the Index.

With solid investment interest hard to identify, the market drifted back until mid-afternoon when London renewed its advance, despite a sluggish start on Wall Street. The Dow Jones Industrial Average made an uncertain start and was barely changed as trading ended in the London market.

Bank and pharmaceutical shares again provided a strong lead for UK equities. But there was some uncertainty as to the level of institutional interest yesterday. Seaq-reported turnover reached 495.2m shares, against 340.8m in the previous session.

Trading volume has been erratic over the past week, with the institutions preferring to take stock by way of brokerage deals or placings, rather than by trading openly in the market. Mr Bill Smith, strategist at Barclays de Zoete Wedd said that the apparent absence of any large input of cash by the institutions was a significant feature of the latest rise in the market.

The drain on institutional cash balances from rights issues this year was confirmed yesterday by London Stock Exchange statistics which showed that rights issues totalled £3.1bn in the second quarter of this year for the highest quarterly total since the market crash of 1987.

Maxwell shares unsettled

SHARES in Maxwell Communication Corporation (MCC) were marked down at the start of trade on press reports that Mr Peter Walker, the former Conservative party minister, would not be becoming chairman of the company as previously expected.

Confidence was further undermined by the official confirmation of the report and the announcement of plans to demerge MCC's US operations, which account for 90 per cent of the company's profits.

The shares ended down 6 at the day's lowest level of 190p. Turnover of 3.3m made yesterday the busiest day's trade in the stock for more than two months.

Mirror Group, the newspaper company controlled by Mr Robert Maxwell, slipped 3 to a new low of 92p. The company was floated at 125p a share in May.

Reuters sold

Profit takers moved in on Reuters as the merger, announced on Monday, of US banking groups Chemical Bank and Manufacturers Hanover prompted fears that the company might suffer as rationalisation reduced demand for its electronic information and trading services. There has been widespread comment that the merger heralded the start of a series of such moves.

Reuters had risen for five consecutive sessions, gaining 83 over the period. It had outperformed a rising market by nearly 9 per cent in a week and, with interims due on July 23, analysts said the often-volatile stock was ripe for a downward correction. They added there had been talk of downgradings yesterday, although this was widely disbelieved.

The shares dropped 24 at one point, before ending the day at 807p for a net decline of 18.

Asda down

Concern that Asda is continuing to lose market share grew after Argyll, one of its main food retailing rivals, reported strong first-quarter trading and a rise in sales volume.

Asda held steady until Mr Alistair Grant, the chairman of Argyll, delivered an upbeat annual general meeting statement. Asda then slipped back and closed 3 lower at 93½p, while Argyll rose 5 to 307p.

Further pressure came after County NatWest reduced its 1993 profit forecast by £4m to £211m, although its 1992 forecast of £188.5m was unchanged. County said Asda's new stores would contribute less to sales growth than predicted.

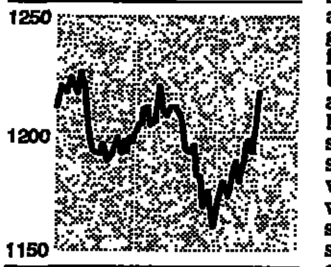
Utilities performed badly against the wider market but dealers mentioned more keen two-way business in the electricity distribution issues and the water stocks. The latter managed minor gains across the board but many of the electricity stocks laboured to maintain overnight levels. The Electricity Package eased 8 to £2,055 on equivalent turnover of 2m.

The Scottish power generators extended their disappointing performances. Hints that around 20m to 30m Scottish Power were being offered around the market kept the shares under pressure; they closed slightly easier at 101½p with 7m traded. Scottish Hydro were similarly easier at 109¼p with 3.5m traded.

Dealers reported an upsurge in activity in the banks where a number of buy recommendations produced genuine institutional buying across the board. Demand was sufficient to reveal a number of short positions and share prices responded with strong gains. NatWest jumped 12 to 327p on turnover of 9.9m, helped by switching out of Midland, 5 firmer at 194p. Barclays put on 7 to 462p on 3.8m and Standard Chartered 10 to 350p.

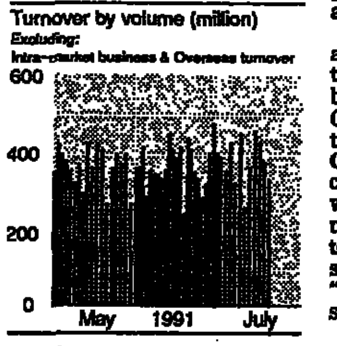
Institutions chased internationals, often considered among the less risky share investments. A single large order for SmithKline Beecham, and subsequent stock shortage, pushed the price 13 better to 823p, its highest level since early May.

FT-A All-Share Index



Equity Shares Traded

Turnover by volume (million)
Excluding:
Intra-market business & Overseas turnover



Wellcome hit its second 18-month high in a row as both institutions and marketmakers tried to flush out sellers. The shares rose 18 to 739p in steady trade.

The oil and gas sector attracted another strong bout of buying interest. British Gas, 6¼ higher at 262½p, took the honours as the best-traded stock with 9.5m traded, still benefiting from broker buy recommendations based on the stock's yield attractions.

Big switching operations involving BP and Shell, triggered by the former's rise after recent oil discoveries, left BP looking tired and 1½ easier at 349p after 347p, on reasonably good turnover of 6.2m. Shell, meanwhile moved up 6 to 530p on 3.2m.

Ultramar added 3½ at 278p on turnover approaching 1m. Mr Jeremy Hudson at Shearson Lehman cut his income and dividend forecasts for the group and highlighted the funds flow problems facing Ultramar which he said had alerted the market to the possibility of a rights issue. Mr Hudson said the group may be considering asset swaps and joint ventures of asset sales to deal with the funding situation. He said Ultramar's depressed share price "presents a buying opportunity for investors prepared to accept a higher than average risk".

A substantial reworking of asset valuations in the exploration and production sub-sector by Dr Rob Arnott at Hoare Govett drew the conclusions that Clyde, Monument and Goal were trading at big discounts to asset value. Lasmo was still said to be undervalued but Enterprise, according to the Hoare analyst, was at a slight premium to asset value "and should be held or switched into Lasmo", he said.

The impact of the Hoare analysis, plus news that the secretary of state for energy has sanctioned the repayment of royalties on North Sea production to facilitate development of the Columba field, drove Lasmo 4 better to 344p. Clyde added 4 to 111p, Goal a penny to 69p and Monument edged up to 43¾p.

Burmah Castrol advanced 13 to 541p after Strauss Turnbull promoted the shares as a long-term buy, saying the stock had underperformed because of the recession and the Foseco acquisition. Strauss gave a target price of 600p a share and highlighted recovery prospects in 1992.

P & O rose 8 to 543p as fears of a rights issue began to fade. However, not all transport specialists dismissed the talk about an imminent issue of fresh equity, saying that the stock market's recent gains could yet tempt P & O to use a rights issue to reduce its high level of gearing. Tiphook rose 12 to 472p on US buying following its visit to US institutional investors last week.

The market's rise passed the property sector by. This week analysts reiterated their concern that the recession would continue to take its toll on property and rental values. Among leaders, Land Securities eased 2 to 482p and MEPC fell 4 to 441p. Among second liners Brixton Estate shed 4 to 181p after recent strength, and Wates City of London slid 5 to 108p, its lowest level for more than five years.

Comment on the likely efficacy of the proposed merger of Rosehaugh and Stanhope served to take the former down 5 to 33p, its level before Monday's announcement. Stanhope shaded a penny to 41p, a new low.

USM-quoted television contractor TV-am slid 17 to 135p after a press report that it had been outbid in its efforts to keep its television franchise.

SD-Scicon held at 56p despite market suggestions that a third bidder could be about to enter the contest for control of the software group. A US group was said to be hovering in the background, as were the big UK telecoms groups. A defence document, including a profits forecast, is also said to be expected.

Rolls-Royce eased 1½ to 145p on turnover of 3.5m shares on unconfirmed reports that a large engine order for Japan Airlines MD-11 aircraft was to be awarded to Rolls's US rival Pratt & Whitney.

Smiths Industries closed 2 up at 248p after a recommendation from UBS Phillips & Drew. Mr Paul Compton believes the company to be an "island of stability in the capital goods sector". Smiths announced earlier in the day that its marine electronics business had formed a joint venture in the Soviet Union to manufacture navigational radar displays.

MARKET REPORTERS:
Daniel Green, Peter John, Jim McCallum, Joel Kibazo, Steve Thompson

■ Other market statistics, including the FT-Actuaries Share Indices and London Traded Options, Page 20.

NEW HIGHS AND LOWS FOR 1991

NEW HIGHS (91). BRITISH FUNDS (6) Treas. 8pc 1991, Treas. 8pc 1992, Treas. 3pc 1992, Fd. 6pc 1993, Treas. 2pc IL 1992, AMERICANS (4) Data General, Manuf. Hanover, Merrill Lynch, Rep NY, BANKS (1) Abbey National, BREWERS (1) Scottish & Newcastle, CHEMICALS (1) Schering, STORES (5) Argos, Kingfisher, Marks & Spencer, Smith (WH) A, Stirling, ELECTRICALS (5) Atlas, Electronic Data, FKI, Hewlett-Packard, Microfilm Reprog., ELECTRICITY (1) PowerGen, ENGINEERING (5) Atlas Copco B, Kvaerner B, Molins, Rotork, TACE, FOODS (6) Dalepak, Hazlewood, Park Food, Shoprite, Sutherland, Utd. Biscuits, INDUSTRIALS (22) Astra B, Betterware Consumer, Boots, Brit. Polythene, Community Hospitals, Courtaulds, De La Rue, ECC, Fisons, Inchcape, Johnson Cleaners, Kalon, Macarthy, Reckitt & Colman, Do. 9.5pc Cnv. Bd., Reliance Sec., Scapa, Shanks & McEwan, Wellcome, Williams, Do. 5⅝pc Prf., Do. 8p Prf., Worthington (AJ), INSURANCE (1) Lloyd Thompson, LEISURE (3) Airtours, Campari Intl., Scottish TV, MOTORS (1) Sanderson Murray Elder, NEWSPAPERS (2) Bemrose, Johnston Press, PAPERS (1) SCA B Free, PROPERTY (1) Slough Ests. 8¼pc Prf., TEXTILES (1) Sirdar, TOBACCOS (2) BAT Inds., Rothmans Intl. B, TRUSTS (17) American Tst., Bankers, Beta Global Emrg. Mkts., Exmoor Dual Inc., Five Arrows Chile, Flmg. Amer. Cnv. 1999, Flmg. Japanese, For. & Col. Pac., GT Japan, Gartmore Value Zero Prf., Jupiter Tarbutt Merlin, Korea Europe, Mexico Fd., River & Merc. Amer. Inc., Scot. Natl. Stppd. Prf., Do. Zero Div Prf., Second Alliance, OILS (2) Brit. Gas, Fairhaven Intl., MINES (3) CRA, Emperor, RTZ.

NEW LOWS (40). CANADIANS (1) ECO, BUILDINGS (3) Albrighton, BMSS, Higgs & Hill, CHEMICALS (2) Evode, Novalal, STORES (1) Chelsea Man, ELECTRICALS (1) Ferranti Intl., ENGINEERING (4) Manganese Bronze, Ransomes, Robinson (T), UMECO, HOTELS (1) Savoy A, INDUSTRIALS (10) Clayhithe, Cosalt, Fitzwilton, GR, Hadleigh, Melville, Nu-Swift, Photo-Me, Whitecroft, Wyndham, INSURANCE (1) FAI, LEISURE (2) Expedier, Thames TV, MOTORS (1) Jacks (Wm), NEWSPAPERS (1) Intl. Business Comms., PAPERS (1) Whinney Mackay-Lewis, PROPERTY (4) Derwent Valley, Mountleigh, Stanhope, Wates City of Lon., TRUSTS (4) Ensign, M & G 2nd Dual Inc., Northern Amer. Gas Wrrnts., Thornton Pan European Wrrnts., OILS (3) Ex. Co of Louisiana, Hardy, Kelt Energy.

FINANCIAL TIMES STOCK INDICES

	July 16	July 15	July 12	July 11	July 10	Year Ago	1991 High	1991 Low	Since Compilation High	Since Compilation Low
Government Secs	84.86	84.80	84.78	84.92	84.86	79.73	85.88 (19/2)	82.17 (2/1)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	93.77	93.83	93.79	93.83	93.55	87.81	94.84 (5/4)	90.59 (2/1)	105.4 (28/11/47)	50.53 (3/1/75)
Ordinary Share ●	1971.4	1951.1	1925.7	1928.4	1918.1	1900.9	2014.5 (5/4)	1608.3 (16/1)	2014.5 (5/4/91)	49.4 (26/6/40)
Gold Mines	212.9	214.2	214.0	222.8	222.7	184.4	222.8 (11/7)	127.0 (22/2)	734.7 (15/2/83)	43.5 (26/10/71)
FT-SE 100 Share	2556.8	2532.5	2497.4	2510.5	2508.4	2406.5	2556.8 (16/7)	2054.8 (16/1)	2556.8 (16/7/91)	986.9 (23/7/84)
FT-SE Eurotrack 200	1169.24	1160.07	1152.64	1155.98	1154.87	-	1192.11 (5/6)	938.62 (16/1)	1192.11 (5/6/91)	938.62 (16/1/91)
●Ord. Div. Yield	4.80	4.85	4.91	4.89	4.91	4.88				
●Earning Yld %(full)	8.43	4.62	8.62	8.59	8.62	10.78				
●P/E Ratio(Net)(☆)	14.59	14.42	14.26	14.32	14.26	11.25				
SEAQ Bargns 4.45pm	31,262	24,252	31,213	30,475	27,146	28,437				
Equity Turnover(£m)†	-	720.47	809.58	1032.29	1019.84	679.11				
Equity Bargains†	-	24,088	31,827	29,046	27,415	28,547				
Shares Traded (ml)†	-	329.4	378.3	434.3	457.0	307.5				

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold mines 12/9/55. Basis 1000 FT-SE 100 31/12/83 & FT-SE Eurotrack 200 26/10/90. ☆ Nil 13.66

Ordinary Share Index, Hourly changes Day's High 1978.9 Day's Low 1962.4

Open	9 am	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
1962.4	1978.5	1974.4	1975.3	1972.5	1971.9	1971.1	1969.6	1969.0

FT-SE 100, Hourly changes Day's High 2561.2 Day's Low 2543.3

Open	9 am	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
2543.3	2561.2	2558.6	2557.4	2558.0	2556.4	2556.8	2554.0	2553.7

FT-SE Eurotrack 200, Hourly changes Day's High 1173.64 Day's Low 1168.74

Open	10 am	11 am	12 pm	1 pm	2 pm	3 pm
1171.59	1172.35	1172.14	1171.75	1171.43	1169.87	1169.52

GILT EDGED ACTIVITY

Indices*	July 15	July 12
Gilt Edged Bargains	87.6	103.3
5—Day average	92.6	90.4

*SE Activity 1974.
†Excluding intra-market business & Overseas turnover.

London report and latest Share index: Tel. 0898 123001

TRADING VOLUME IN MAJOR STOCKS

Stock	Volume 000's	Closing Price	Day's change
ADT	430	623	-7
ASDA Group	4,800	93½	-3
Abbey National	3,500	282	+6
Albert Fisher	600	115	+1
Allied-Lyons	2,400	557	+5
Amstrad	1,500	40½	+½
Anglian Water	1,000	357	+2
Argos	994	321	+9
Argyll Group	4,300	307	+5
Arjo Wiggins	1,600	271	+6
[illegible]			
British Land	592	291	-1
BP	6,200	349	-1½
British Steel	5,100	121	+1½
British Telecom	4,600	387	+2
Bunzl	558	83	+2
Burmah Castrol	729	541	+13
Burton	2,300	41½	+1
Cable & Wire.	2,800	523	+2
Cadburys	1,800	382	+1
Calor Group	328	230	+1
Carlton Comms.	1,100	461	+9
Coats Viyella	1,700	157	+6
Comm. Union	229	526	+3
Cookson	3,900	108	+1½
Courtaulds	1,800	437	+2
Dalgety	806	391	+2
De La Rue	343	413	+5
Dixons	1,100	214	+1
ECC Group	708	445	+15
Eastern Elect.	226	185	-2
East Midland Elect.	167	198	
Enterprise Oil	1,200	540	+3
Eurotunnel Units	437	484	+12
FKI	1,600	82	+2
[illegible]			
IMI	556	241	+8
ICI	1,500	1294	+8
Inchcape	935	385	+6
Kingfisher	1,700	514	
Ladbroke	3,900	252	+3½
Land Securities	785	482	-2
Laporte	306	559	+10
Legal & General	2,000	424	+1
Lloyds Abbey	837	399	+6
Lloyds Bank	3,000	340	+5
LASMO	690	344	+4
London Elect.	709	191	-2
Lonrho	1,500	259	+4½
Lucas	1,800	141	+1
MB Caradon	820	227	+6
MEPC	275	441	-4
Manweb	1,300	251	+4
Marks & Spencer	4,800	270	
Maxwell Comms.	3,300	190	-6
Midland Bank	2,200	194	+5
Midlands Elect.	1,300	205	-1
NatWest Bank	9,900	327	+12
National Power	7,500	144	+2
Next	186	28½	-½
[illegible]			
Reuters	732	807	-18
Rolls Royce	3,500	145	-1½
Rothmans	491	1008	+18
Ryl Bk Scotland	4,600	184	+5
Royal Insurance	3,700	412	+3
Saatchi	544	18¼	+¼
Sainsbury	3,100	369	+6
Scottish & New.	2,200	415	+11
Scot. Hydro-Elect.	3,500	109¼	-½
Scottish Power	7,000	101½	-½
Sears	1,800	76	
Sedgwick	1,089	271	-4
Seeboard	189	188	-2
Severn Trent Water	1,900	324	+5
Shell Transport	3,200	531	+7
Siebe	314	488	+3
Slough Ests	1,200	243	-1
Smith (W.H.) A	624	413	+19
Smith & Nephew	4,300	132½	+1
SmKl Beecham	2,400	823	+13
SmKl Beecham Uts.	241	[illegible]	+20
Smiths Inds.	389	248	+2
Southern Elect.	838	197	-1
[illegible]			
Unilever	1,300	781	
United Biscuits	3,600	394	-2
Utd. Newspapers	280	358	+3
Wellcome	1,300	739	+18
Welsh Water	778	380	+2
Wessex Water	405	307	
Whitbread 'A'	889	472	+9
Williams Hldgs.	4,500	325	+8
Willis Corroon	785	315	+6
Wimpey	465	180	-2
Yorkshire Elect.	703	231	+2
Yorkshire Water	805	368	+2

Based on the trading volume for a selection of Alpha securities dealt through the SEAQ system yesterday until 4.30pm.

EQUITY FUTURES AND OPTIONS TRADING

STOCK index futures provided an early strong lead to the equity market as positive noises on the world economy at the Group of Seven summit and a shortage of stock fuelled an expectation that shares would extend their rally, writes Jim McCallum.

However, the advance in equity futures soon gave way to a period of consolidation as institutional investors started to sell. The premium of the September FT-SE 100 index was whittled away from 43 points to just over 30, a clear indication of unease.

Mr Harvey Neale of UBS Phillips & Drew said he believed the futures market was due for a correction after the speed of its recent rise. "Nothing has changed materially on the economic outlook and there has not been any support from other world equity markets."

September FT-SE closed at 2,588, up 18 points on the day, while the premium ended at 33, compared with fair value of 25.

Turnover in traded options jumped by almost 50 per cent as investors reacted to the gains in equities by selling calls against stock holdings.

The most popular trades involved the sale of July calls and purchase of October calls, particularly in GrandMet, ICI, Fisons and Allied-Lyons stock options. There were also sellers of FT-SE calls.

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

1991 High	1991 Low	Stock	Price £	+ or -	Yield Int.	Yield Red.
100⅛	99⅜	Exch. 11pc 1991	100⅛	.....	11.00	10.56
99⅛	96⅞	Treas. 8pc 1991	99⅛	+⅛	8.07	10.25
101⅛	100⅛	Treas 12¾pc 1992‡‡	101⅛xd	.....	12.61	10.38
99⅞	97⅞	Treas 10pc 1992	99⅞xd	.....	10.02	[illegible]
98⅜	95⅜	Treas. 8pc 1992 ‡‡	98⅜	+⅛	8.13	[illegible]
100⅞	98½	Treas 10½pc Cv 1992‡‡	100⅛	-⅛	10.49	[illegible]
95⅞	91⅞	Treas. 3pc 1992	95⅞	+⅛	3.14	[illegible]
102⅞	100⅝	Exch. 12¼pc '92	102	-⅛	12.01	[illegible]
104⅛	102⅞	Exch 13½pc 1992	103⅞	.....	13.06	[illegible]
97⅞	94	Treas 8¼pc 1993	97⅜	+⅛	8.48	[illegible]
99⅞	97⅜	Treas 10pc 1993‡‡	99⅝	.....	10.04	[illegible]
104⅛	102⅝	Treas 12½pc 1993‡‡	104⅛	.....	12.02	[illegible]
93⅞	89⅝	Funding 6pc 1993‡‡	93⅞	+⅛	6.41	[illegible]
108⅜	105⅝	Treas 13¾pc 1993‡‡	107⅛	+⅛	12.84	[illegible]
96⅜	92⅞	Treas. 8½pc 1994	96⅛xd	+⅛	8.83	[illegible]
111⅛	108⅜	Treas 14½pc 1994‡‡	109½	.....	13.24	[illegible]
109	105⅞	Exch 13½pc 1994	107½	.....	12.56	[illegible]
99⅞	96⅛	Treas. 10pc Ln. 1994‡‡	99⅜	+⅛	10.06	[illegible]
106⅞	103⅛	Exch. 12½pc 1994	105⅞xd	+⅛	11.82	[illegible]
96⅞	93⅛	Treas 9pc 1994‡‡	96½	.....	9.33	[illegible]
106⅜	102⅜	Treas 12pc 1995	104⅞xd	+⅛	11.44	[illegible]
89	82¼	Exch 3pc Gas 90-95	86	.....	3.49	[illegible]
100⅞	96⅞	Exch. 10¼pc 1995	99⅞xd	+⅛	10.26	[illegible]
109⅞	105⅞	Treas 12¾pc 1995‡‡	108⅜	+⅛	11.77	[illegible]
113⅞	109⅞	Treas. 14pc '96	112⅜xd	+⅛	12.48	[illegible]
96⅞	92⅞	Treas. 9pc 1992-96‡‡	96⅞	+⅛	9.33	[illegible]
119⅞	115⅞	Treas 15¼pc 1996‡‡	117⅞	+⅛	12.99	[illegible]
112⅛	108	Exch 13¼pc 1996‡‡	110⅜	+⅛	12.01	[illegible]

Five to Fifteen Years

1991 High	1991 Low	Stock	Price £	+ or -	Yield Int.	Yield Red.
100⅛	95⅞	Conversion 10pc 1996	98⅞	+⅛	10.11	10.25
99⅞	97⅛	Do. 10pc 1996 B	98⅞	+⅛	10.11	10.26
113⅞	108⅞	Treas 13¼pc 1997‡‡	111⅛xd	+⅛	11.90	10.48
102⅞	97⅛	Exch 10½pc 1997	100⅛xd	+⅛	10.42	10.32
94⅞	89⅞	Treas 8¾pc 1997‡‡	93⅜	-⅛	9.38	10.21
122⅜	117	Exch 15pc 1997	119⅝	.....	12.53	10.58
98⅞	93⅞	Exch. 9¾pc 1998	97⅞	.....	10.00	10.28
85⅞	80⅛	Treas 6¾pc 1995-98‡‡	85⅞	.....	7.90	9.73
127⅞	121⅛	Treas. 15½pc '98‡‡	124⅞	-⅛	12.41	10.46
109⅞	104⅛	Exch. 12pc 1998	108⅞	+⅛	15.72	10.36
97⅞	92⅞	Treas 9½pc 1999‡‡	96⅞	-⅛	9.83	10.13
111⅞	105⅞	Exch. 12¼pc 1999	109⅝	.....	11.17	10.38
102⅝	97⅜	Treas. 10½pc 1999	101⅛	+⅛	10.38	10.28
101⅛	95⅞	Conversion 10¼pc 1999	99⅛	+⅛	10.28	10.28
94⅞	89⅝	Conversion 9pc 2000‡‡	93⅝	+⅛	9.61	10.12
116⅞	110½	Treas. 13pc 2000	114⅞	-⅛	11.35	10.46
100⅛	94⅜	Treas 10pc 2001	98⅞	-⅛	10.13	10.22
38⅞	36⅜	Do. 10pc 2001 B●	38⅞	-⅛	10.19	10.14
118⅞	113⅜	Treas. 14pc '98-01	116⅞	.....	12.02	10.55
98⅝	92⅞	Treas 9¾pc 2002	96⅞	.....	10.06	10.24

BRITISH FUNDS—Contd

1991 High	1991 Low	Stock	Price £	+ or -	Yield Int.	Yield Red.
100⅞	94⅜	Treas 10pc 2003	98⅞	+⅛	10.14	10.19
108⅛	102	Treas. 11½pc 2001-04	106⅛	-⅛	10.81	10.42
58⅝	53½	Funding 3½pc '99-04	58⅜	-⅛	6.00	9.01
97⅛	90⅞	Conversion 9½pc 2004	95¼	+⅛	9.97	10.17
97⅛	90⅞	Conversion 9½pc 2005	95⅜	.....	12.59	10.13
118¼	111	Treas. 12½pc 2003-05	115⅜	-⅛	10.83	10.25
[illegible]						

Over Fifteen Years

1991 High	1991 Low	Stock	Price £	+ or -	Yield Int.	Yield Red.
[illegible]						

Undated

1991 High	1991 Low	Stock	Price £	+ or -	Yield Int.	Yield Red.
[illegible]						

Index-Linked

1991 High	1991 Low	Stock	Price £	+ or -	Yield (1)	Yield (2)
130⅜	125¼	Tr. 2pc '92‡‡ (97.8)	[illegible]			
118⅜	115⅜	Do. 2 '94 (102.9)	[illegible]			
172⅜	168⅜	Do. 2pc '96 (67.9)	[illegible]			
142⅝	137⅝	Do 2½pc '01 (78.3)	[illegible]			
138⅞	133	Do. 2½pc '03 (78.8)	[illegible]			
140¼	135	Do. 2pc '06 (69.5)	[illegible]			
128⅞	124⅜	Do. 2½pc '09 (78.8)	[illegible]			
132⅝	128	Do. 2½pc '11 (74.6)	[illegible]			
109⅝	105⅝	Do. 2½pc '13 (89.2)	[illegible]			
117⅞	113⅜	Do. 2½pc '16 (81.6)	[illegible]			
113⅜	109⅜	Do. 2½pc '20 (83.0)	[illegible]			
95⅛	91¼	Do. 2½pc '24‡‡ (97.7)	[illegible]			

Prospective real redemption rate on projected inflation of (1) 10% and (2) 5%. (b) Figures in parentheses show RPI base for indexing, (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in January 1987. Conversion factor 3.945. RPI for November 1990: 130.0 and for June 1991: 134.1.

INT. BANK AND O'SEAS

1991 High	1991 Low	Stock	Price £	+ or -	Yield Int.	Yield Red.
102	95¾	African Dv Bk 11¼ Ln 2010	101⅞	+⅛	10.99	10.95
97⅛	91⅞	Asian Dev Bk 10¼pc Ln 2009	96⅜	+⅛	10.64	10.70
112⅛	105⅜	Int-Am Dev Bk 12½pc 2003	110⅜	.....	11.28	10.82
92⅜	86¾	Do. 9¼pc Ln 2015	90⅜	-⅛	10.73	10.81
122	101	Utd. Mexican States 16½pc 2008	122	.....	13.52	13.47

CORPORATION LOANS

1991 High	1991 Low	Stock	Price £	+ or -	Yield Int.	Yield Red.
[illegible]						

COMMONWEALTH & AFRICAN LOANS

1991 High	1991 Low	Stock	Price £	+ or -	Yield Int.	Yield Red.
[illegible]						

LOANS

Building Societies

1991 High	1991 Low	Stock	Price £	+ or -	Yield Int.	Yield Red.
[illegible]						

Public Board and Ind.

1991 High	1991 Low	Stock	Price £	+ or -	Yield Int.	Yield Red.
[illegible]						

FOREIGN BONDS & RAILS

1991 High	1991 Low	Stock	Price £	+ or -	Div %	Red. Gross Yield
[illegible]						

Continued on next page

APPOINTMENTS

Barclays de Zoete Wedd moves

■ Mr Simon de Zoete has been appointed chairman of de Zoete & Bevan, corporate broking arm of BARCLAYS de ZOETE WEDD, from September 1. Mr Nick Brigstocke becomes a deputy chairman of de Zoete & Bevan, as does Mr Tim Coghlan who also continues as chairman of BZW Equities. Mr John Wightman will become business development director, and Mr Andrew Adcock, a director of BZW Securities, will also become a director of de Zoete & Bevan. Mr Leslie Johnstone, Mr Chris Lloyd, Mr Charles Scott, Mr Ian Watts and Mr Chris Wells, directors of de Zoete & Bevan, will also become directors of BZW Securities.

■ Mr Peter Hunt has become managing director of WRIGHT OLIPHANT, a subsidiary of Hambro Countrywide. He was joint managing director. Mr Charles Dunsford becomes a full time consultant. Mr William Minto and Mr Neal Scambler, directors, have been appointed joint heads of the agency division.

■ At GEC-MARCONI COMMUNICATIONS, Chelmsford, Mr David Chenery has been appointed managing director. He was managing director of Marconi Radar Systems. Mr Steve Menzies becomes financial director. He was financial director of Marconi International Marine. Mr Richard Barry Ellingham has been made commercial director. He was commercial director, Marconi Radar Systems.

■ SPRITE LEISURE GROUP, which has taken over CI Caravans following a management buy-out, has appointed Mr Terry Cramphorn *(pictured)* as financial director. He joins from Robson Rhodes Cambridge office where he is head of corporate finance, and advised the CI directors during the buy-out negotiations.

■ The WIDNEY GROUP has promoted Mr Ed Bates from operations director to managing director of defence systems subsidiary Widney Aish, based at Poole. Mr Chris Ballard joins as financial director. He was an area commercial manager with BOCM Silcock, a Unilever subsidiary.

■ Mr Richard Harwood joins COLLINS, STEWART & CO, institutional agency stockbrokers, tomorrow. He was head of research at Schroder Securities.

■ COLONIAL MUTUAL has appointed Mr David Johnson as assistant general manager, finance, a new post. He was finance director at RoyScot Finance Group.

■ Mr Mark Chilton has been promoted to the board of FIRST MORTGAGES SECURITIES. He joined the company in 1987.

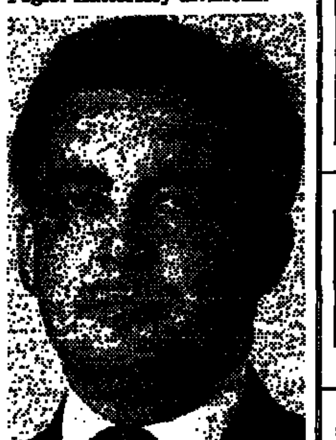
■ After 2½ years as chief executive, retail division, Carroll Group, Mr Peter Morgan is rejoining BERNARD THORPE as senior retail partner. He had previously been with the firm for 15 years.

■ Mr John Duffield has become SAVE & PROSPER'S appointed actuary. He will also join the board of Save & Prosper Insurance. He has been with the company for 17 years.

■ Dr Gwyn Jones has been reappointed chairman of the WELSH DEVELOPMENT AGENCY for a further three years.

■ HADEN MACLLELAN HOLDINGS has appointed Mr Ashley Farmer as divisional general manager, responsible for creating a new environmental division. He was a director at Rover.

■ Mr H.R.G. Nelson has been appointed divisional managing director responsible for the FENNER GROUP's power transmission manufacturing operations. He has been manufacturing director of RHP Industrial Bearings, and managing director at Hopkinsons, and Pegler-Hattersley divisions.



■ Mr Federico Sacasa *(pictured)*, executive vice president, BANK OF AMERICA, has been appointed head of relationship management in the London-based Europe, Middle East and Africa division, and will be responsible for European commercial banking. He has been developing a Section 20 subsidiary in the US division, providing investment banking services.

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AMERICANS

1991 High	Low	Stock	Price £	+ or –	Div Gross	C'vr	Y'ld Gr's
33¾	20⅞	Abbott Laboratories‡	31⅛xd	+⅛	$1.00	–	1.9
385p	257p	♦Allegheny & W 1c	383p	+10	30c	–	5.9
10⅛	667p	Amdahl 5c	981pxd	+11	10c	–	0.7
42⅛	25¾	Amer. Cyanamid $5	41⅛	+⅝	$1.50	–	2.1
17⅞	9⅞	Amer. Express 60c	13⅞xd	.....	92c	–	3.9
24⅛	15¼	American T. & T. $1	23⅛xd	.....	$1.32	–	3.3
38⅞	32⅛	Ameritech $1	35⅞	–⅛	$3.40	–	5.6
24	12⅛	BankAmerica $1⅛	22⅛xd	+⅜	$1.20	–	3.1
34⅛	20⅛	Bankers N.Y. $1	31⅛xd	+⅛	$1.52	–	9.1
30⅛	24¼	Bell Atlantic $1	28xd	–⅛	$2.52	–	5.3
31¼	25	BellSouth Corp	29	–⅛	$2.76	–	5.6
11¼	6⅞	♦Bethlehem Steel $8	10⅞xd	–⅛	40c	–	2.3
1839p	1046p	Bowater Inc	1598p	–15	$1.20	–	4.4
9⅛	4⅛	Brunswick 75c	8⅛xd	+⅛	44c	–	3.0
54	37⅛	CPC Intnl. 25c	51⅛xd	+⅛	$2.00	–	2.3
852p	420p	California Engy	778p	.....	–	–	–
50	28⅛	Campbell Soup 15c	46⅞xd	–⅛	$1.16	–	1.5
12⅝	5⅛	Chase Manhattan $12½	12⅛xd	+1⅛	$1.20	–	5.9
9⅞	5½	Chrysler $6¼	8⅛xd	.....	60c	–	4.0
10⅛	5⅞	Citicorp $1	8½xd	.....	$1.00	–	7.0
25	21⅛	Colgate-Palmolive $1	22⅛xd	+⅛	$1.06	–	2.8
845p	438p	Cont'l Bank Corp $4	810p	+57	$1.00	–	7.3
21⅛	13⅜	Dana Corp. $1	19⅛xd	–⅛	$1.60	–	4.8
1090p	203p	Data General	1098p	+32	–	–	–
22	12⅞	Dial Crop. $1.5	21⅞xd	–⅛	$1.40	–	3.9
29⅝	20¼	Dun & Bradstreet $1	28⅛	–⅛	$2.16	–	4.5
40	24¼	Eaton Corpn. 50c	37½	–⅛	$2.20	–	–
8⅞	5⅞	Echlin Inc	8	–⅛	70c	–	5.2
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CANADIANS

[illegible]

BANKS, HP & LEASING

[illegible]

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS – Contd

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

DRAPERY AND STORES – Contd

[illegible]

ELECTRICALS

[illegible]

ELECTRICITY

[illegible]

see EQUITIES under LONDON RECENT ISSUES

ENGINEERING

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS (Miscel.) – Contd

[illegible]

INDUSTRIALS (Miscel.) – Contd

[illegible]

INSURANCES

[illegible]

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LEISURE

MOTORS, AIRCRAFT TRADES

Commercial Vehicles

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

PROPERTY

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TOBACCOS

TRANSPORT

TRANSPORT—Contd

INVESTMENT TRUSTS

INVESTMENT TRUSTS—Contd

Net asset values supplied by County NatWest Wood Mackenzie

FINANCE, LAND, ETC

WATER

OIL AND GAS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

O.F.S.

Diamond and Platinum

Central Africans

Finance

Australians

MINES—Contd

High	Low	Stock	Price	+ or -	Div Net	C'vr	Y'ld Gr's
£113¾	£73¾	Homestake Mining $1	£104½	.....	Q20c	–	1.1
61	30	Hibernia West .... ψ	53	.....	–	–	–
46	36	Kells Mns. Ir5p ... ψ	36	.....	–	–	–
25	9	Kenmare .... ψ	13	.....	–	–	–
18	15	Navan Resources ... ψ	16	.....	–	–	–
99	52	Northgate Expl. C$1	71	–4	–	–	–
16	6	North West Expl.	7	.....	–	–	–
109	25	Nor-Quest Res.	107	.....	–	–	–
188	82	Oryx Gold Hldgs.	173	.....	–	–	–
23	11	Ovoca Gold IR 2p .. ψ	15	.....	–	–	–
44	24	Plateau Mining 20p ... β	26	–1	–	–	–
594	404	RTZ 10p .... α	590	–1	19.5	2.2	4.4
11	3½	Thorco Res. Inc.	10	–1	–	–	–
10	5	Vizcaya Hldgs 5p ... β	5	.....	–	–	–
133	120	Young Group 10p .. β	123	.....	5.2	♦	5.6

Tins

Miscellaneous

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha refers to shares traded through SEAQ by at least two marketmakers and with a normal market size of 2,000 or more, based on experience of how many of its shares are traded in the typical deal. β Beta refers to all other shares. γ Gamma refers to other traded instruments.

Highs and lows are based on intra-day mid prices. Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current pre-closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- ● "Tap Stock"
- • Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ♦ Figures or report awaited
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ¤¤ Not officially listed.
- ‡ Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- ♦ Not comparable
- ♦ Same interim; reduced final and/or reduced earnings indicated
- § Forecast dividend; cover based on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ☆ Cover does not allow for shares which may also rank for dividend at a future date. No P/E usually provided.
- ‖ No par value

B.Fr. Belgian Francs. Fr. French Francs ¶¶ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other official estimates. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1990-91. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1991. K Dividend and yield based on prospectus or other official estimates for 1990. L Estimated annualised dividend, cover and P/E based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1991-92. N Dividend and yield based on prospectus or other official estimates for 1989-90. P Figures based on prospectus or other official estimates for 1991. Q Gross. R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Stock	Price	+ or -
Craig & Rose £1 .. β	640	.....
Finlay Pkg. 5p .... β	21	–2
Holt (Jos) 25p ..... β	1978	.....
Helton Hldgs .... γ	43	.....
IRG	128½	.....
United Drug	170	.....

IRISH

Stock	Price	+ or -
Cap. 8½% Ln. 2010	£93¼	.....
9pc Cap Ln. 1996 ..	£97⅝	–⅛
Fin. 13% 97/02 ..	£114¼	.....
Arnotts	165	.....

TRADITIONAL OPTIONS

3-month call rates

Industrials	p
Allied-Lyons	46
Amstrad	7
Astec (BSR)	6
BAT	68
BOC Grp.	31
BTR	33
Barclays	38
Blue Circle	24
Boots	30
Bowaters	53
Brit Aerospace	56
British Steel	12
Brit. Telecom	29
Cadburys	33
Charter Cons.	45
Comm Union	44
Courtaulds	32
Eurotunnel	50
FKI	6
FNFC	20
Gen Accident	48
GEC	17
Glaxo	80
Grand Met	62
Guardian	19
GKN	31
Hanson	19
Hawker Sidd.	39
ICI	80
Ladbroke	22
Legal & Gen.	36
Lex Service	20
Lloyds Bank	38
Lucas Inds.	13
Marks & Spencer	21
Midland Bk.	18
Nat West Bk.	27
P & O Dfd	51
Racal Elect.	18
RHM	28
Rank Org Ord.	63
Ratners	17
Reed Intal	36
Sears	8½
SmKl. Beecham A	58
TI	45
TSB	12
Tesco	21
Thorn EMI	64
Trust Houses	25
T&N	15
Unilever	68
Vickers	19
Wellcome	40

Property	
Brit Land	38
Control Secs.	3
Land Securities	45
MEPC	48
Mountleigh	8½

Oils	
Aviva Petlm.	3
Brit Petroleum	28
Burmah Castrol	49
Coenoy Petlm.	10
Gaelic Res.	2
Premier	6
Shell	41
Tuskar Res.	2
Ultramar	30

Mines	
Lonrho	21
RTZ	48

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AUTHORISED UNIT TRUSTS

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♣) - 1101 to 1400 hours; (◆) - 1401 to 1700 hours; (♠) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point, a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation.
Centre Point,
103 New Oxford Street, London WC1A 1QH
Tel: 071 – 379 – 0444.

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Century Life Plc
2 Eyre Street Hill, London EC1R 5AE 071-278 4488
City Of Edinburgh Life Assurance

	Bid Price	Offer Price	+ or -	Yield Gross
Life Funds				
Far East Emerg Econ	39.9	41.9	-0.2	-
Fund of Inv Tsts	59.4	62.4	+0.4	-
Money	151.8	159.4		-
Special Situations	83.3	87.5	+0.8	-
UK Growth	125.5	131.7	+1.3	-
World Growth	117.3	123.2	+0.3	-
Pension Funds				
Fund of Inv Tsts	133.1	139.8	+0.8	-
Special Situations	123.3	129.4	+1.3	-
UK Growth	209.4	219.9	+2.1	-
World Growth	144.5	151.8	+0.3	-
UK Life Assurance				
Managed	104.5	110.0	+0.8	-
Property	125.2	131.8		-
Equity	133.3	140.3	+1.1	-
International	90.1	94.9	+0.2	-
Fixed Interest	116.2	122.3	+0.3	-
Deposit	134.4	141.5	+0.1	-

Crusader Insurance PLC
PO Box 37, Greenock, Renfrewshire, PA15 4AZ 0475 888008

	Bid Price	Offer Price	+ or -	Yield Gross
Life Funds				
Measured Performance	113.3	119.9	-0.2	-
Performance Plus	108.4	114.7	-0.1	-
With Profit Perform.	134.4	142.2	+0.1	-
UK Opportunity	134.4	142.2		-
European Opportunity	132.1	139.8	-0.3	-
Nth American Opp	97.9	103.6	-0.7	-
Far Eastern Opp	131.6	139.3	-1.1	-
Overseas	118.6	125.5	-0.3	-
Gwth Prp Ser 1 Mar 6	163.6	172.2		-
Gwth Prp Ser 2	151.5	160.3	+0.1	-
Fixed Interest	128.5	136.0	+0.1	-
Cash	134.6	142.4	+0.1	-
Pension Funds				
Cash	133.6	140.6		-
European	137.0	144.2	+0.4	-
Far Eastern	139.2	146.5	-1.3	-
Fixed	119.0	125.3	+0.1	-
Mixed	119.9	126.2	-0.2	-

Assicurazioni GENERALI SpA
117 Fenchurch St, London EC3M 5DY 071-488 0733

	Bid Price	Offer Price	+ or -	Yield Gross
Hambro Generali Gilt	143.5	151.1	-	-
Hambro Generali Pty	133.8	140.9	-	-
Hambros Canadian	122.0	129.2	-	-
Hambros Equity Inc	130.1	137.6	-	-
Hambros European	145.9	153.6	-	-
Hambros High Income	147.4	155.2	-	-
Hambros Jap & Far East	142.5	150.0	-	-
Hambros Nth American	171.3	180.4	-	-
Hambros Scandinavian	168.4	177.3	-	-
Hambros Smaller Cos	140.6	148.0	-	-
Generali Intl Managed	504.4	531.0	-	-
Generali Int Mgd Pens	213.2	224.5	-	-
Generali Cash	161.3	169.8	-	-

Gresham Unit Assurance Ltd
2-6 Prince of Wales Rd, Bournemouth 0202 752000
Gresham Series III

	Bid Price	Offer Price	+ or -	Yield Gross
Managed Life Fd	548.4	577.9	+3.9	-
Managed Pension Fd	117.5	125.8		-

Gresham Series II

Legal & General (Unit Pensions) Ltd
Kingswood House, Kingswood, Tadworth, Surrey 0737 370370

	Bid Price	Offer Price	+ or -	Yield Gross
Ex. Bldg. Soc. Lnkd	155.6	163.8		-
Do Accum	194.6	204.9	+0.1	-
Exempt Cash Init	277.4	292.0	+0.1	-
Do Accum	437.7	460.8	+0.1	-
Exempt Eqty Init	853.3	898.3	+11.3	-
Do. Accum	1346.5	1417.4	+17.8	-
Exempt Euro Init	163.6	172.3	+0.5	-
Do. Accum	198.5	209.0	+0.4	-
Exempt Far East Init	223.0	234.8	-0.7	-
Do Accum	270.6	284.9	-0.8	-
Exempt Fixed Init	414.6	436.5	+0.3	-
Do. Accum	654.2	688.7	+0.5	-
Ex. Index Lnk. Gilt	126.3	133.0	-0.1	-
Do. Accum	170.3	179.3	-0.1	-
Exempt Intl. Initial	209.4	220.5	-0.2	-
Do. Accum	296.4	312.0	-0.4	-
Exempt Mngd. Init	607.0	639.0	+4.4	-
Do. Accum	957.8	1008.3	+7.0	-

Merchant Investors Assurance Co Ltd
Part of the MI Group
91 Wimpole St, London W1M 7DA
Life Administration 0272 266366
Pensions Administration 081-686 9171
Unit Prices 081 789 2945 or 0272 752297

	Bid Price	Offer Price	+ or -	Yield Gross
MI Managed Fd	55.8	58.7	+0.2	-
MI Currency Fd	222.0	233.6	-0.2	-
MI Environmental	46.8	49.2		-
MI European Equity	54.2	57.0	+0.1	-
MI Far East Equity	310.9	327.2	+1.9	-
MI Gilt-Edged	399.6	420.6	+0.1	-
MI Income	51.8	54.5	+0.2	-
MI Index Linked Gilt	182.0	191.5	-1.0	-
MI Interest	317.3	334.0		-
MI International	382.7	402.8	+1.5	-
MI Intl Equity	396.0	416.8	+1.7	-
MI Nth Amer Equity	152.9	160.9	+1.0	-
MI Property	489.7	515.4	+0.1	-
MI UK Fd	363.7	382.8	+1.7	-
MI UK Equity	247.4	260.4	+1.9	-

INSURANCES

OTHER UK UNIT TRUSTS

Continued on next page

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N & P Life Assurance Ltd

6-7 Bedford Row, London, WC1R 4UJ 071-430 2348

	Bid Price	Offer Price	+ or −	Yield Gross
Life Managed Fd	107.4	113.1	+1.0	−
Pension Managed Fd	106.1	111.6	+1.5	−
Life Deposit Fd	108.1	113.8	+0.1	−
Pension Deposit Fd	113.5	119.5	.....	−

National Financial Management Corp PLC

72 Gatehouse Rd, Aylesbury, HP19 3XJ 0296 395539

	Bid Price	Offer Price	+ or −	Yield Gross
Life Funds				
Managed Cautionary	108.7	114.5	+1	−
Managed Growth	136.5	143.7	+0.9	−
Managed Opportunity	138	145.3	+0.6	−
NFMC Target Financial	103.1	108.6	+1.8	−
Pension Funds				
Managed Cautionary	119.2	125.5	+1.1	−
Managed Growth	144.5	152.2	+0.9	−
Managed Opportunity	138.3	145.6	+0.5	−
NFMC Target Mngd Pen	1532.3	1613	+14.4	−

National Mutual Life

The Priory, Priory Pk, Hitchin, SG5 2DW 0462 422422

	Bid Price	Offer Price	+ or −	Yield Gross
Harvester Pension Funds				
Managed	161.9	170.5	.....	−
UK Equity	167.8	176.7	.....	−
Overseas Equity	137.9	145.2	.....	−
Fixed Interest	146.3	154.0	.....	−
Property	127.8	134.6	.....	−
Index Linked	147.4	155.2	.....	−
Deposit	158.1	166.5	.....	−
With Profits GIL	129.7	136.5	.....	−

National Provident Institution

48 Gracechurch St, London EC3P 3HH 071-623 4200

	Bid Price	Offer Price	+ or −	Yield Gross
Managed	355.1	373.8	+3.2	−
UK Equity	445.7	469.2	+6.8	−
Overseas Eq	353.2	371.8	+1.2	−

Prosperity Life Assurance Ltd

1 Sessions Hse Sq, Maidstone ME14 1XX 0622 690555

	Bid Price	Offer Price	+ or −	Yield Gross
Initial Equity	152.0	160.5	+1.5	−
Accum Equity	218.5	230.5	+2.5	−
Accum Managed	228.0	240.5	+1.5	−
Accum Five Star	171.5	181.0	.....	−
Accum World	125.5	132.5	+1.0	−
Accum Lifetime	109.6	109.6	+0.5	−
Pens Acc Equity	235.5	248.5	+3.5	−
Pens Acc Managed	284.0	299.5	+2.0	−
Pens Acc Intl	217.0	229.0	+0.5	−
Pens Acc Deposit	200.5	211.5	.....	−
Pens Acc Five Star	188.0	198.0	.....	−

Providence Capital Life Assc. Co Ltd

2 Bartley Way, Hook, Hants RG27 9XA 0256 768888

	Bid Price	Offer Price	+ or −	Yield Gross
UK Equity Acc	225.5	237.9	+2.6	−
UK Fixed Int Acc	176.6	186.5	+0.1	−
Intl Equities Acc	178.7	188.6	+0.3	−
UK Managed Acc	174.4	183.9	+1.2	−
Property Acc	224.1	236.4	.....	−
Money Acc	130.0	137.2	.....	−
Special Market Acc	142.2	150.1	−0.7	−
Japan Equity Acc	105.4	111.2	−0.6	−
North American Acc	109.5	115.6	+0.4	−
Pacific Acc	98.0	103.4	−0.1	−
Technology Acc	128.5	135.6	−0.3	−
Nat Resources Acc	64.3	67.9	+0.5	−
European Acc	101.6	107.2	−0.1	−
Residential Prop Acc	96.2	101.5	.....	−
Swiss Equities Acc	35.1	37.1	−0.1	−
Hong Kong Acc	70.4	74.3	+0.2	−
UK High Inc Eq Acc	72.5	76.5	+0.7	−
Int Fixed Interest Acc	57.9	61.1	+0.1	−
Int Managed Acc	57.1	60.2	+0.1	−
HIP Managed Acc	118.5	125.0	+0.7	−
HIP Managed II Acc	100.3	105.8	+0.1	−
HIP Managed III Acc	107.4	113.2	+0.2	−
Total Investment Bond				
UK Equity Initial		153.4	+1.7	−
UK Fixed Int Initial		120.9	.....	−
Intl Equities Initial		120.9	+0.2	−
UK Managed Initial		118.8	+0.7	−
Property Initial		153.8	.....	−

Shield Assurance Ltd

40 Uxbridge Rd, W5 2BS 081-567 0700

	Bid Price	Offer Price	+ or −	Yield Gross
Gartmore Mngd	124.3	130.8	+0.6	−
Framlington Mngd Life	98.1	103.2	+0.4	−
Henderson Mngd Life	94.8	99.7	+0.6	−
Brunel Life	116.5	122.6	.....	−
Secure Life	115.0	121.1	+0.1	−
Gartmore Pens Mngd	130.3	137.1	+0.5	−

OFFSHORE INSURANCES

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

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IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

Gartmore Indosuez Funds
39 Allée Scheffer L-2520 Lux 010 352 4767492

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Equity Portfolios						
North America		$-	2.31		+0.03	-
United Kingdom		£-	1.17		+0.02	-
France		FFr-	10.07		.....	-
Germany		DM-	4.87		+0.01	-
Switzerland		SFr-	2.68		-0.02	-
Europe		Ecu-	1.12		+0.01	-
Japan		Y-	268		-2.00	-
Singapore/Malaysia		S$-	5.62		-0.02	-
Pacific		$-	2.36		+0.01	-
Natural Resources		$-	2.02		+0.02	-
Developing Markets		$-	2.27		+0.01	-
International		$-	2.08		+0.04	-
Bond Portfolios						
Dollar Bond		$-	2.07		-0.01	-
Sterling Bond		£-	1.00		.....	-
French Franc Bond		FFr-	10.05		.....	-
Deutsche Mark Bond		DM-	5.11		-0.01	-
European Bond		Ecu-	1.05		.....	-
Global Bond		$-	1.99		.....	-
Diverbond		SFr-	2.53		.....	-
Reserve Portfolios						
Dollar Reserve		$-	2.04		.....	-
Sterling Reserve		£-	1.05		.....	-
French Franc Reserve		FFr-	10.32		.....	-
Deutsche Mark Reserve		DM-	5.15		.....	-
Yen Reserve		Y-	265		.....	-

Gartmore Luxembourg SA (a)
39 Allée Scheffer, L-2520 Lux 010 352 4767470

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Japan Warrant N		$-	2.65	2.74	-0.04	-

Henderson Management SA (a)
21-25 Allée Scheffer L-2520 Luxembourg 071-638 5757 or 010-352 462232

Wardley Investment Services (Lux) SA (a)
7 rue du Marché - aux - Herbes L-1728 Luxembourg
Dealing: 010 352 476812220 Fax: 475569

Wardley Global Selection		Bid Price	Offer Price	+ or -	Yield Gross
Canada Equity	$-	9.12	9.60	+0.03	-
Europe Equity	$-	9.91	10.44	+0.05	-
Hong Kong Equity	$-	13.61	14.33	+0.06	-
Intl Managed Equity	$-	11.38	11.98	+0.09	-
Japan Equity	$-	10.35	10.90	-0.04	-
Malaysia Equity	$-	14.41	15.17	-0.06	-
Nth America Equity	$-	10.49	11.05	+0.1	-
Singapore Equity	$-	15.56	16.37	-0.02	-
South Pacific Eqty	$-	6.66	7.01	.....	-
UK Equity	£-	10.28	10.82	+0.15	-
Sterling Bond	£-	4.45	4.69	.....	-
US Dollar Bond	$-	9.47	9.97	.....	-
Intl Managed Bond	$-	11.47	12.08	+0.01	-
Sterling Reserve	£-	4.98	5.25	.....	-
US Dollar Reserve	$-	9.71	10.22	+0.01	-

LUXEMBOURG (REGULATED)(**)

Alliance Capital

	Bid Price	Offer Price	+ or -	Yield Gross
Global Bond Fund	$12.19	12.57	.....	-
Global Leisure	$11.20	11.55	+0.13	-
Health Care	$41.79	43.87	+0.43	-
Intl. Tech	$20.50	21.58	+0.04	-
Worldwide Income A1	$10.01	10.32		-
Worldwide Income A2	$10.55	10.88	+0.01	-

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

MANAGED FUNDS NOTES

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Dollar and sterling advance

THE DOLLAR advanced in subdued foreign exchange trading yesterday, recovering slowly from the influence of Friday's heavy intervention by the major central banks.

Comments by Mr Alan Greenspan, chairman of the Federal Reserve Board, were regarded as ambiguous about the US economy and had a limited impact on the dollar. In testimony before a congressional committee he said "there are compelling signs that the recession is behind us. A variety of cyclical indicators bottomed out by early spring, and some have moved noticeably higher in recent months."

However he added that "con*vincing evidence of a dynamic* expansion is rather limited, and we must remain alert to the chance that the recovery could be muted or could even falter."

In its Humphrey Hawkins report the Federal Reserve said M2 money supply has grown at an annual rate of a little less than 4 per cent this year, well within the target range, and leaving room for manoeuvre. The Fed also said that by adopting policies intended to put the economy on a path of moderate sustainable growth it should be possible to achieve meaningful progress in reducing inflation over the remainder of this year and into 1992.

At the London close the dollar was around the day's high in Europe, rising to DM1.7990 from DM1.7875; to Y137.10 from Y136.65; to SFr1.5615 from SFr1.5480; and to FFr6.1050 *from FFr6.0675*. Its index climbed to 67.6 from 67.5.

Sterling weakened against the firm dollar, but was stronger against its partners in the European exchange rate mechanism. The pound gained some support from news that the UK public sector borrowing requirement was £1.41bn in June, against market forecasts of around £1.70bn.

Last week's disappointing UK inflation news and action by the Bank of England have discouraged *speculation* about further cuts in bank base rates. Fears that tomorrow's figures on industrial production, unemployment and money supply growth will indicate that recessionary pressure remains strong did not appear to cause concern.

Sterling fell 70 points to $1.6455, and declined to Y225.50 from Y225.75, but rose to DM2.9600 from DM2.9550; to FFr10.0450 from FFr10.0275; and to SFr2.5700 from SFr2.5575. The pound's index gained 0.2 to 90.6.

In the ERM the pound rose to third strongest, below the top placed Spanish peseta and the Italian lira. The peseta eased slightly against the weakest currency, the Danish krone.

The French franc remained the second lowest member of the ERM. There was no change in the Bank of France's monetary stance, but speculation about rate cuts followed news that French year-on-year inflation was 3.3 per cent in June, compared with the German rate of 3.5 per cent. This was the first time that French inflation had fallen below Germany's since 1973.

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu Central Rates	Currency Amounts Against Ecu Jul 16	% Change from Central Rate	% Spread vs Weakest Currency	Divergence Indicator
Spanish Peseta	133.631	128.863	-3.57	5.08	62
Italian Lira	1538.24	1530.55	-0.50	1.84	30
Sterling	0.696904	0.694253	-0.38	1.72	6
Belgian Franc	42.4032	42.3180	-0.20	1.54	15
Dutch Guilder	2.31643	2.31549	-0.04	1.37	7
D-Mark	2.05586	2.05560	-0.01	1.34	7
Irish Punt	0.767417	0.768292	0.11	1.22	-1
French Franc	6.89509	6.97778	1.20	0.13	-60
Danish Krone	7.84195	7.94634	1.33	0.00	-56

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.
Adjustment calculated by Financial Times.

£ IN NEW YORK

July 16	Latest	Previous Close
£ Spot	1.6435-1.6445	1.6505-1.6515
1 month	0.73-0.71pm	0.76-0.74pm
3 months	1.99-1.96pm	2.00-1.97pm
12 months	5.92-5.82pm	5.90-5.80pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	July 16	Previous
8.30 am	90.5	90.2
9.00 am	90.5	90.2
10.00 am	90.5	90.2
11.00 am	90.5	90.3
Noon	90.5	90.3
1.00 pm	90.5	90.2
2.00 pm	90.6	90.3
3.00 pm	90.6	90.4
4.00 pm	90.6	90.4

CURRENCY MOVEMENTS

Jul 16	Bank of England Index	Morgan** Guaranty Changes %
Sterling	90.6	-20.6
U.S Dollar	67.6	-11.3
Canadian Dollar	106.5	+3.4
Austrian Schilling	108.2	+10.9
Belgian Franc	109.5	-3.1
Danish Krone	107.0	+1.9
D-Mark	115.5	+22.7
Swiss Franc	108.6	+18.0
Dutch Guilder	112.3	+14.7
French Franc	101.2	-14.1
Lira	97.8	-20.2
Yen	140.0	+71.6

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base Average 1985=100). **Rates are for Jul 15

CURRENCY RATES

Jul 16	Bank ‡ rate %	Special * Drawing Rights	European † Currency Unit
Sterling	-	0.803687	0.694253
U.S Dollar	5.50	1.32086	1.14691
Canadian $	8.89	1.51997	1.31413
Austrian Sch	7	16.6957	14.4671
Belgian Franc	7.50	48.8190	42.3180
Danish Krone	9	9.17337	7.94634
D-Mark	6.50	2.37134	2.05560
Dutch Guilder	7.75	2.67184	2.31549
French Franc	10¼	8.05460	6.97778
Italian Lira	11½	1765.63	1530.55
Japanese Yen	5.50	180.892	157.069
Norway Krone	8	9.24206	8.01401
Spanish Peseta	-	148.669	128.863
Swedish Krona	10.00	8.57965	7.43425
Swiss Franc	6.00	2.05460	1.78287
Greek Drach	19	N/A	224.209
Irish Punt	-	N/A	0.768292

‡ Bank rate refers to central bank discount rates. These are not quoted by the UK, Spain and Ireland.
† European Commission Calculations.
* All SDR rates are for Jul 15

OTHER CURRENCIES

Jul 16	£	$
Argentina	16381.0 - 16417.5	9925.00 - 9935.00
Australia	2.1275 - 2.1290	1.2885 - 1.2895
Brazil	534.440 - 535.270	324.300 - 324.600
Finland	7.1145 - 7.1275	4.3150 - 4.3180
Greece	318.750 - 325.150	193.350 - 197.250
Hong Kong	12.7860 - 12.8025	7.7560 - 7.7590
Iran	112.00*	70.00*
Korea(Sth)	1196.15 - 1215.45	729.00 - 734.80
Kuwait	0.47810 - 0.47820	0.29290 - 0.29390
Luxembourg	60.85 - 60.95	36.95 - 37.05
Malaysia	4.5845 - 4.5925	2.7810 - 2.7830
Mexico	4977.75 - 4982.45	3015.00 - 3016.00
N.Zealand	2.9240 - 2.9270	1.7710 - 1.7730
Saudi Ar	6.1340 - 6.2195	3.7500 - 3.7510
Singapore	2.8860 - 2.8930	1.7505 - 1.7525
S.Af (Cm)	4.7375 - 4.7485	2.8750 - 2.8765
S.Af (Fn)	5.1595 - 5.2410	3.1250 - 3.1745
Taiwan	44.55 - 44.65	27.00 - 27.05
U.A.E.	6.0100 - 6.0870	3.6715 - 3.6735

* Selling rate.

POUND SPOT - FORWARD AGAINST THE POUND

Jul 16	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.6450 - 1.6500	1.6450 - 1.6460	0.73-0.71cpm	5.25	1.99-1.96pm	4.80
Canada	1.8855 - 1.8925	1.8865 - 1.8875	0.43-0.46cpm	2.83	0.77-0.67pm	1.53
Netherlands	3.3300 - 3.3400	3.3300 - 3.3400	⅝-½cpm	2.02	1½-1⅜pm	1.72
Belgium	60.75 - 61.05	60.85 - 60.95	14-10cpm	2.36	29-24pm	1.74
Denmark	11.4100 - 11.4525	11.4225 - 11.4325	1⅞-1⅝orepm	1.77	4⅝-3⅞pm	1.49
Ireland	1.1040 - 1.1085	1.1060 - 1.1070	0.15-0.10cpm	1.36	0.32-0.22pm	0.98
Germany	2.9550 - 2.9625	2.9575 - 2.9625	⅝-½pfpm	2.28	1⅝-1½pm	1.77
Portugal	252.40 - 254.50	253.50 - 254.50	216-381cdis	-14.1	348-514dis	-6.79
Spain	184.90 - 185.70	185.30 - 185.60	21-25cdis	-1.49	61-72dis	-1.43
Italy	2198.50 - 2204.75	2203.75 - 2204.75	par-1liredis	-0.27	2-3dis	-0.45
Norway	11.5075 - 11.5550	11.5225 - 11.5325	1⅞-1⅛orepm	1.76	4⅝-3⅞pm	1.47
France	10.0200 - 10.0600	10.0400 - 10.0500	1⅜-1⅛cpm	1.49	3⅝-3⅛pm	1.39
Sweden	10.6900 - 10.7200	10.6900 - 10.7000	⅝-½orepm	0.63	1⅛-½pm	0.35
Japan	225.00 - 226.25	225.00 - 226.00	¾-⅝ypm	3.66	2-1⅞pm	3.33
Austria	20.77 - 20.84	20.79 - 20.82	4⅜-3⅛gropm	2.20	9⅞-8⅛pm	1.78
Switzerland	2.5625 - 2.5750	2.5650 - 2.5750	⅝-⅝cpm	3.21	2-1⅞pm	2.92
Ecu	1.4375 - 1.4425	1.4390 - 1.4400	0.19-0.14cpm	1.38	0.42-0.33pm	1.04

Commercial rates taken towards the end of London trading. Six-month forward dollar 3.52-3.47cpm . 12 Month 5.90-5.80cpm

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

Jul 16	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.6450 - 1.6500	1.6450 - 1.6460	0.73-0.71cpm	5.25	1.99-1.96pm	4.80
Ireland†	1.4880 - 1.4935	1.4890 - 1.4900	0.51-0.46cpm	3.91	1.42-1.32pm	3.68
Canada	1.1450 - 1.1470	1.1460 - 1.1470	0.26-0.28cdis	-2.83	0.70-0.75dis	-2.53
Netherlands	2.0155 - 2.0270	2.0260 - 2.0270	0.52-0.55cdis	-3.17	1.53-1.58dis	-3.07
Belgium	36.85 - 37.05	36.95 - 37.05	8.50-10.50cdis	-3.08	25.00-31.00dis	-3.03
Denmark	6.9225 - 6.9475	6.9425 - 6.9475	1.90-2.20oredis	-3.54	5.45-6.05dis	-3.31
Germany	1.7885 - 1.7995	1.7985 - 1.7995	0.44-0.46pfdis	-3.00	1.33-1.36dis	-2.99
Portugal	153.60 - 153.95	153.70 - 153.80	200-300cdis	-19.51	400-500dis	-11.71
Spain	112.20 - 112.80	112.60 - 112.70	62-65cdis	-6.76	172-182dis	-6.28
Italy	*1332.00 - 1339.75*	*1339.25 - 1339.75*	*6.00-6.50liredis*	*-5.60*	*17.20-18.20dis*	*-5.29*
Norway	6.9775 - 7.0075	7.0025 - 7.0075	2.45-2.75oredis	-4.45	7.05-7.55dis	-4.17
France	6.0750 - 6.1075	6.1025 - 6.1075	1.85-1.90cdis	-3.69	5.15-5.25dis	-3.41
Sweden	6.4750 - 6.5080	6.4975 - 6.5025	2.34-2.59oredis	-4.55	7.05-7.45dis	-4.46
Japan	136.65 - 137.15	137.05 - 137.15	0.16-0.18ydis	-1.49	0.47-0.50dis	-1.42
Austria	12.6000 - 12.6575	12.6525 - 12.6575	2.00-4.50grodis	-3.08	8.00-12.00dis	-3.16
Switzerland	1.5525 - 1.5625	1.5610 - 1.5620	0.23-0.26cdis	-1.88	0.67-0.73dis	-1.79
Ecu	1.1430 - 1.1480	1.1435 - 1.1445	0.39-0.37cpm	3.99	1.08-1.04pm	3.71

Commercial rates taken towards the end of London trading. † UK, Ireland and ECU are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency.

EURO-CURRENCY INTEREST RATES

Jul 16	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
Sterling	11 - 10⅞	11 - 10⅞	11⅛ - 11	11⅛ - 11	10⅞ - 10¾	10 13/16 - 10 11/16
US Dollar	5¾ - 5⅝	6 - 5⅞	6 - 5⅞	6⅛ - 6	6⅜ - 6¼	6 11/16 - 6 9/16
Can. Dollar	8⅛ - 8	8½ - 8⅜	8½ - 8⅜	8⅝ - 8½	8⅝ - 8½	9⅛ - 8⅞
Dutch Guilder	8⅝ - 8½	8⅞ - 8⅝	9 - 8⅞	9⅛ - 9	9⅛ - 9	9⅜ - 9¼
Swiss Franc	7⅞ - 7¾	7⅞ - 7¾	7 13/16 - 7 11/16	7 13/16 - 7 11/16	7 13/16 - 7 11/16	7⅝ - 7½
D-Mark	8 13/16 - 8 11/16	8⅞ - 8⅝	8⅞ - 8¾	9⅛ - 9	9⅜ - 9¼	9⅝ - 9½
French Franc	9⅝ - 9½	9½ - 9⅜	9½ - 9⅜	9⅝ - 9½	9⅝ - 9½	9 11/16 - 9 9/16
Italian Lira	12 - 10	11½ - 10½	11¾ - 10¾	11½ - 11	11⅝ - 11⅛	12 - 11⅝
Belgian Franc	8⅞ - 8¾	8 15/16 - 8 13/16	8 15/16 - 8 13/16	9¼ - 9	9⅜ - 9¼	9½ - 9¼
Yen	7⅞ - 7¾	7½ - 7⅜	7½ - 7⅜	7⅜ - 7¼	7⅜ - 7¼	7⅜ - 7¼
Danish Krone	9⅝ - 9½	9¾ - 9⅝	9¾ - 9⅝	9¾ - 9⅝	9¾ - 9⅝	9⅝ - 9½
Asian $Sing	6 - 5⅞	6 - 5⅞	6 1/16 - 5 15/16	6 3/16 - 6 1/16	6 5/16 - 6 3/16	6 9/16 - 6 7/16

Long term Eurodollars: two years 7½-7⅜ per cent; three years 7 13/16-7 11/16 per cent; four years 8¼-8⅛ per cent; five years 8½-8⅜ per cent nominal. Short term rates are call for US Dollars and Japanese Yen; others, two days' notice.

EXCHANGE CROSS RATES

July 16	£	$	DM	Yen	F Fr.	S Fr.	H Fl.	Lira	C$	B Fr.	ECU
£	1	1.645	2.960	225.5	10.04	2.570	3.335	2204	1.887	60.90	1.439
$	0.608	1	1.799	137.1	6.103	1.562	2.027	1340	1.147	37.02	0.875
DM	0.338	0.556	1	76.18	3.392	0.868	1.127	744.6	0.638	20.57	0.486
YEN	4.435	7.295	13.13	1000.	44.52	11.40	14.79	9774	8.368	270.1	6.381
F Fr.	0.996	1.638	2.948	224.6	10.	2.560	3.322	2195	1.879	60.66	1.433
S Fr.	0.389	0.640	1.152	87.74	3.907	1	1.298	857.6	0.734	23.70	0.560
H Fl.	0.300	0.493	0.888	67.62	3.010	0.771	1	660.9	0.566	18.26	0.431
Lira	0.454	0.746	1.343	102.3	4.555	1.166	1.513	1000.	0.856	27.63	0.653
C$	0.530	0.872	1.569	119.5	5.321	1.362	1.767	1168	1	32.27	0.763
B Fr.	1.642	2.701	4.860	370.3	16.49	4.220	5.476	3619	3.099	100.	2.363
ECU	*0.695*	*1.143*	*2.057*	*156.7*	*6.977*	*1.786*	*2.318*	*1532*	*1.311*	*42.32*	*1*

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

FINANCIAL FUTURES AND OPTIONS

LIFFE LONG GILT FUTURES OPTIONS £50,000 64ths of 100%

Strike Price	Calls-settlements Sep	Calls-settlements Dec	Puts-settlements Sep	Puts-settlements Dec
88	3-61	4-18	0-03	0-26
89	3-00	3-32	0-06	0-40
90	2-07	2-51	0-13	0-59
91	1-23	2-08	0-29	1-16
92	0-49	1-38	0-55	1-46
93	0-26	1-11	1-32	2-19
94	0-13	0-56	2-19	3-00
95	0-07	0-39	3-13	3-47

Estimated volume total, Calls 1731 Puts 577
Previous day's open int. Calls 19961 Puts 15561

LIFFE US TREASURY BOND FUTURES OPTIONS $100,000 64ths of 100%

Strike Price	Calls-settlements Sep	Calls-settlements Dec	Puts-settlements Sep	Puts-settlements Dec
90	3-69	3-48	0-07	0-42
91	3-02	3-03	0-14	0-61
92	2-12	2-27	0-24	1-21
93	1-28	1-56	0-40	1-50
94	0-55	1-27	1-03	2-21
95	0-30	1-03	1-42	2-61
96	0-15	0-49	2-27	3-43
97	0-07	0-34	3-19	4-28

Estimated volume total, Calls 125 Puts 76
Previous day's open int. Calls 1430 Puts 540

LIFFE BUND FUTURES OPTIONS DM250,000 points of 100%

Strike Price	Calls-settlements Sep	Calls-settlements Dec	Puts-settlements Sep	Puts-settlements Dec
8250	1.77	2.17	0.03	0.22
8300	1.31	1.76	0.07	0.31
8350	0.89	1.39	0.15	0.44
8400	0.54	1.07	0.30	0.62
8450	0.29	0.80	0.55	0.85
8500	0.14	0.58	0.90	1.13
8550	0.06	0.41	1.32	1.46
8600	0.03	0.29	1.79	1.84

Estimated volume total, Calls 8089 Puts 7572
Previous day's open int. Calls 83621 Puts 81463

LIFFE EUROMARK OPTIONS DM1m points of 100%

Strike Price	Calls-settlements Sep	Calls-settlements Dec	Puts-settlements Sep	Puts-settlements Dec
9000	0.81	0.80	0	0.03
9025	0.57	0.58	0.01	0.06
9050	0.34	0.37	0.03	0.10
9075	0.15	0.22	0.09	0.20
9100	0.04	0.12	0.23	0.35
9125	0.01	0.06	0.45	0.54
9150	0	0.03	0.69	0.76
9175	0	0.01	0.94	0.99

Estimated volume total, Calls 540 Puts 560
Previous day's open int. Calls 24111 Puts 18785

LIFFE EURODOLLAR OPTIONS US$1m points of 100%

Strike Price	Calls-settlements Sep	Calls-settlements Dec	Puts-settlements Sep	Puts-settlements Dec
9275	0.97	0.51	0	0.11
9300	0.73	0.34	0.01	0.19
9325	0.49	0.20	0.02	0.30
9350	0.27	0.11	0.05	0.46
9375	0.10	0.05	0.13	0.65
9400	0.02	0.03	0.30	0.88
9425	0.01	0.01	0.54	1.11
9450	0	0	0.78	1.35

Estimated volume total, Calls 200 Puts 200
Previous day's open int. Calls 2133 Puts 2575

LIFFE SHORT STERLING OPTIONS £500,000 points of 100%

Strike Price	Calls-settlements Sep	Calls-settlements Dec	Puts-settlements Sep	Puts-settlements Dec
8850	0.90	1.32	0	0
8875	0.65	1.08	0	0.01
8900	0.42	0.84	0.02	0.02
8925	0.22	0.62	0.07	0.05
8950	0.09	0.43	0.19	0.11
8975	0.04	0.28	0.39	0.21
9000	0.01	0.16	0.61	0.34
9025	0	0.08	0.85	0.51

Estimated volume total, Calls 2178 Puts 1732
Previous day's open int. Calls 39303 Puts 36334

LONDON (LIFFE)

20-YEAR 9% NOTIONAL GILT * £50,000 32nds of 100%

	Close	High	Low	Prev.
Sep	91-29	92-06	91-26	91-31
Dec	91-28	91-30	91-30	91-30

Estimated volume 13712 (10303)
Previous day's open int. 33232 (34533)

US TREASURY BONDS 8% * $100,000 32nds of 100%

	Close	High	Low	Prev.
Sep	93-26	93-27	93-18	93-21
Dec	93-03			92-30

Estimated volume 703 (1305)
Previous day's open int. 3779 (4008)

6% NOTIONAL GERMAN GOVT. BOND * DM250,000 100ths of 100%

	Close	High	Low	Prev.
Sep	84.24	84.55	84.19	84.54
Dec	84.45	84.69	84.42	84.74

Estimated volume 35721 (15358)
Previous day's open int. 73512 (73878)

6% NOTIONAL LONG TERM JAPANESE GOVT. BOND Y100m 100ths of 100%

	Close	High	Low
Sep	95.40	95.41	95.36
Dec	95.68		

Estimated volume 469 (513)
Traded exclusively on APT

9% NOTIONAL ECU BOND ECU 200,000 100ths of 100%

	Close	High	Low	Prev.
Sep	98.77	98.84	98.70	98.90
Dec	98.66			98.79

Estimated volume 146 (155)
Previous day's open int. 1487 (1410)

THREE MONTH STERLING * £500,000 points of 100%

	Close	High	Low	Prev.
Sep	89.40	89.44	89.38	89.41
Dec	89.82	89.85	89.79	89.81
Mar	89.98	90.00	89.97	89.98
Jun	89.81	89.84	89.82	89.82
Sep	89.56	89.58	89.55	89.56
Dec	89.47	89.47	89.46	89.46

Est. Vol. (inc. figs. not shown) 19003 (19559)
Previous day's open int. 122095 (122561)

THREE MONTH EURODOLLAR * $1m points of 100%

	Close	High	Low	Prev.
Sep	93.72	93.72	93.69	93.70
Dec	93.15	93.15	93.12	93.14
Mar	93.09	93.09	93.07	93.08
Jun	92.69	92.69	92.68	92.69

Est. Vol. (inc. figs. not shown) 1390 (2092)
Previous day's open int. 29655 (29523)

THREE MONTH EUROMARK * DM 1m points of 100%

	Close	High	Low	Prev.
Sep	90.81	90.83	90.80	90.83
Dec	90.77	90.79	90.76	90.81
Mar	90.95	90.98	90.94	90.97
Jun	91.09	91.11	91.08	91.12
Sep	91.27	91.27	91.27	91.31
Dec	91.39	91.42	91.40	91.42

Estimated volume 15514 (8667)
Previous day's open int. 104142 (105547)

THREE MONTH ECU ECU 1m points of 100%

	Close	High	Low	Prev.
Sep	90.27	90.32	90.26	90.32
Dec	90.40	90.44	90.39	90.47
Mar	[illegible]	[illegible]	[illegible]	[illegible]
Jun	[illegible]	[illegible]	[illegible]	[illegible]

Estimated volume [illegible]
Previous day's open int. [illegible]

THREE MONTH EURO SWISS FRANC SFR 1m points of 100%

	Close	High	Low	Prev.
Sep	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]
Jun	[illegible]	[illegible]	[illegible]	[illegible]

Estimated volume [illegible]
Previous day's open int. [illegible]

FT-SE 100 INDEX * £25 per full index point

	Close	High	Low	Prev.
Sep	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]

Estimated volume [illegible]
Previous day's open int. [illegible]

FT-SE EUROTRACK 100 INDEX DM50 per full index point

	Close	High	Low	Prev.
Sep	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]

Estimated volume [illegible]
Previous day's open int. [illegible]

* Contracts traded on APT after trading hours

CHICAGO

U.S. TREASURY BONDS (CBT) 8% $100,000 32nds of 100%

	Latest	High	Low	Prev.
Sep	93-26	93-28	93-17	93-26
Dec	93-03	93-04	92-27	93-03
Mar	92-14	92-14	92-08	92-15
Jun	91-26	91-26	91-24	91-28
Sep	-	-	-	92-10
Dec	90-28	90-28	90-23	90-30
Mar	-	-	-	92-18
Jun	90-07	-	-	90-07
Sep	91-11	91-11	91-05	91-12
Dec	-	-	-	-
Mar	-	-	-	-

U.S. TREASURY BILLS (IMM) $1m points of 100%

	Latest	High	Low	Prev.
Sep	94.44	94.44	94.43	94.43
Dec	94.06	94.08	94.05	94.07
Mar	-	-	93.98	94.00
Jun	-	-	93.63	93.65
Sep	-	-	-	93.24

SWISS FRANC (IMM) SFr 125,000 $ per SFr

	Latest	High	Low	Prev.
Sep	0.6399	0.6413	0.6395	0.6443
Dec	0.6365	0.6380	0.6365	0.6420
Mar	-	-	-	0.6408

JAPANESE YEN (IMM) Y12.5m $ per Y100

	Latest	High	Low	Prev.
Sep	0.7282	0.7295	0.7280	0.7292
Dec	0.7265	0.7267	0.7263	0.7273
Mar	-	-	-	0.7269
Jun	-	-	-	0.7270

DEUTSCHE MARK (IMM) DM125,000 $ per DM

	Latest	High	Low	Prev.
Sep	0.5545	0.5554	0.5541	0.5569
Dec	0.5502	0.5515	0.5502	0.5529
Mar	-	-	-	0.5499

THREE-MONTH EURODOLLAR (IMM) $1m points of 100%

	Latest	High	Low	Prev.
Sep	93.71	93.73	93.70	93.70
Dec	93.15	93.18	93.12	93.14
Mar	93.08	93.10	93.06	93.08
Jun	92.68	92.70	92.68	92.69
Sep	92.28	92.29	92.27	92.28
Dec	91.89	91.91	91.88	91.90
Mar	91.92	91.93	91.91	91.92
Jun	91.68	91.69	91.67	91.68

STANDARD & POORS 500 INDEX $500 times index

	Latest	High	Low	Prev.
Sep	384.20	385.50	384.05	384.50
Dec	387.15	388.40	387.15	387.50
Mar	-	391.40	390.30	390.65

PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per £1)

Strike Price	Calls Aug	Calls Sep	Calls Oct	Calls Dec	Puts Aug	Puts Sep	Puts Oct	Puts Dec
1.575	7.36	7.52	7.69	8.15	0.33	0.96	1.63	2.96
1.600	5.13	5.50	5.93	6.50	0.71	1.63	2.44	3.95
1.625	3.27	3.82	4.33	5.05	1.44	2.51	3.49	5.14
1.650	1.97	2.58	3.16	3.87	2.54	3.78	4.68	6.49
1.675	1.15	1.70	2.20	2.92	4.16	5.38	6.28	8.04
1.700	0.50	1.03	1.49	2.25	6.10	7.17	8.05	9.78
1.725	0.19	0.58	0.97	1.64	8.23	9.17	10.04	11.66

Previous day's open int: Calls 243,561 Puts 207,035 (All currencies)
Previous day's volume: Calls 15,417 Puts 12,194 (All currencies)

PARIS

10 YEAR 10% NOTIONAL FRENCH BOND (MATIF) FUTURES

	Open	Sett price	Change	High	Low	Yield	Open int.
September	105.16	105.00	-0.22	105.20	104.96	9.18	86,138
December	105.12	105.02	-0.22	105.12	105.02	9.18	6,771
March	105.08	104.96	-0.22	105.20	105.08	9.19	3,417

Estimated volume 64,174 Total Open Interest 98,326

THREE-MONTH PIBOR FUTURES (MATIF) (Paris interbank offered rate)

	Open	Sett price	Change	High	Low	Yield	Open int.
September	90.75	90.70	-0.04	90.75	90.68	9.26	27,186
December	90.85	90.82	-0.03	90.85	90.80	9.15	13,152
March	90.95	90.96	-0.02	90.96	90.95	9.02	3,561
June	-	91.02	-0.02	-	-	8.96	311

Estimated volume 11,576 Total Open Interest 44,220

CAC-40 FUTURES (MATIF) Stock index

	Open	Sett price	Change	High	Low	Yield	Open int.
July	1777.0	1762.0	-9.0	1781.5	1762.0	-	11,653
August	1792.0	1775.5	-8.5	1795.0	1777.5	-	1,810
September	1807.0	1766.5	-9.0	1807.0	1791.0	-	2,699
December	1841.0	1828.0	-8.5	1841.0	1841.0	-	414

Estimated volume 5,657 Total Open Interest 16,576

ECU BOND (MATIF)

	Open	Sett price	Change	High	Low	Yield	Open int.
September	104.66	104.62	-0.12	104.70	104.52	9.25	3,816

Estimated volume 1,846 Total Open Interest 3,816

OPTION ON LONG-TERM FRENCH BOND (MATIF)

Strike	Calls September	Calls December	Calls March	Puts September	Puts December	Puts March
103	-	-	-	0.12	0.50	-
104	1.31	-	-	0.29	-	-
105	0.68	1.24	1.58	0.65	1.20	-
106	0.30	0.85	-	1.26	-	-
107	0.11	0.50	-	-	-	-
108	0.04	0.31	0.55	-	-	-
Open int	177,224	34,489	7,325	128,443	21,964	15,400

Estimated volume 15,576 Total Open Interest 384,845

POUND - DOLLAR

FT FOREIGN EXCHANGE RATES

Spot	1-mth.	3-mth.	6-mth.	12-mth.
1.6455	[illegible]	[illegible]	[illegible]	[illegible]

IMM-STERLING $ per £

	Latest	High	Low	Prev.
Sep	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]

BASE LENDING RATES

	%		%		%
ABN Bank	11	Comm. Bk. of London Plc	11	McDonnell Douglas Bnk.	11
Adam & Company	11	Co-operative Bank	11	Midland Bank	11
Allied Trust Bank	11	Coutts & Co	11	Mount Banking	11
AIB Bank	11	Cyprus Popular Bk	11	NatWestminster	11
● Henry Ansbacher	11	Dunbar Bank PLC	11	Northern Bank Ltd	11
B & C Merchant Bank	11	Duncan Lawrie	11	Nykredit Mortgage Bank	12
Bank of Baroda	11	Equatorial Bank plc	11	Provincial Bank PLC	14
Banco Bilbao Vizcaya	11	Exeter Bank Limited	11½	Roxburghe Bank Ltd.	12.5
Bank of Cyprus	11	Financial & Gen. Bank	12	Royal Bk of Scotland	11
Bank of Ireland	11	First National Bank Plc.	14	● Smith & Williamson Secs.	11
Bank of India	11.5	● Robert Fleming & Co.	11	Standard Chartered	11
Bank of Scotland	*11*	*Robert Fraser & Ptrs.*	*11½*	*TSB*	*11*
Banque Belge Ltd	11	Girobank	11	Unibank plc	11
Barclays Bank	11	● Guinness Mahon	11	● United Bk of Kuwait	11
Benchmark Bank	11.5	● Hambros Bank	11	Unity Trust Bank Plc	11
Brit Bk of Mid East	11	Hampshire Trust Plc	13.5	Western Trust	11
● Brown Shipley	11	Heritable & Gen Inv Bnk.	11	Westpac Bank Corp.	11
CL Bank Nederland	11	● Hill Samuel	11	Whiteaway Laidlaw	11
Citibank NA	11	C. Hoare & Co.	11	Yorkshire Bank	11
City Merchants Bank	11	Hongkong & Shanghai	11		
Clydesdale Bank	11	● Leopold Joseph & Sons	11		
		Lloyds Bank	11		
		Meghraj Bank Ltd	11		

● Members of British Merchant Banking & Securities Houses Association.

MONEY MARKETS

A softer tone

INTEREST RATES eased slightly in London yesterday, but trading was quiet, with further cuts in base rates not expected for some time. Three-month sterling interbank declined to 11 1/16-10 15/16 from 11⅛-11 per cent and 12-month money fell to 10¾-10⅝ from 10 13/16-10 11/16 per cent.

Short sterling futures were little changed on Liffe, but were underpinned by a lower than expected UK public sector borrowing requirement in June. Trading remained quiet however, with prices confined to a narrow range.

UK clearing bank base lending rate
11 per cent
from July 12, 1991

September delivery opened at 89.42 and rose to 89.44 shortly after the PSBR data, before closing at 89.42 compared with 89.41 previously.

Day-to-day credit was in fairly comfortable supply on the cash market. The Bank of England initially forecast a shortage of £700m, but revised this to £800m at noon and to £750m in the afternoon. Total help of £542m was provided.

Before lunch the authorities *bought £97m bank bills* outright in band 1 at 10⅞ per cent. In the afternoon another £360m bills were purchased, by way of £25m Treasury bills in band 1 at 10⅞ per cent; £303m bank bills in band 1 at 10⅞ per cent; and £32m bank bills in band 2 at 10⅞ per cent. Late assistance of around £85m was also provided.

Bills maturing in official hands, repayment of late assistance and a take-up of Treasury bills drained £144m, with exchequer transactions *absorbing £680m. These* outweighed a fall in the note circulation adding £90m to liquidity and bank balances above target of £15m.

In Frankfurt call money eased to 8.70 from 8.75 per cent *as banks bid for funds at this* week's securities repurchase agreement tender. The German Bundesbank set a two-tranche tender for 28-day and 68-day funds at variable bid rates. The money is required to offset two *expiring pacts* worth a total of DM25.3bn.

Bids at the tender were expected to be in line with recent facilities, mostly at 8.80 per cent for one-month money and 8.90 per cent for *two-month funds.*

In Paris the Bank of France left its money market intervention rate at 9.00 per cent, and the five to 10-day repurchase rate at 10.00 per cent, at yesterday's securities repurchase tender. The central bank drained a net 5.4bn at the tender. It accepted bids of FFr65.9bn, compared with an expiring facility of FFr71.3bn.

FT LONDON INTERBANK FIXING

(11.00 a.m. July 16) 3 months US dollars		6 months US Dollars	
bid 6	offer 6⅛	bid [illegible]	offer [illegible]

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted to the market by five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque National de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK — Treasury Bills and Bonds

Lunchtime			
Prime rate	8½	One month	[illegible]
Broker loan rate	7¼	Two month	[illegible]
Fed.funds	5⅞	Three month	[illegible]
Fed.funds at intervention	-	Six month	[illegible]
		One year	[illegible]
		Two year	[illegible]

July 16	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	8.65-8.75	8.80-8.95	8.85-9.00	[illegible]	[illegible]	[illegible]
Paris	9⅛-9¼	9⅝-9¾	9⅝-9¾	[illegible]	[illegible]	[illegible]
Zurich	7⅞-7⅞	7⅞-7⅞	-	[illegible]	[illegible]	[illegible]
Amsterdam	8.43-8.56	8.85-8.95	-	[illegible]	[illegible]	[illegible]
Tokyo	7⅞-7⅞	7⅞-7½	-	[illegible]	[illegible]	[illegible]
Milan	10¾-11	11⅛-11¼	-	[illegible]	[illegible]	[illegible]
Brussels	8¼-8⅞	8⅞-8⅞	-	[illegible]	[illegible]	[illegible]
Dublin	9½-9¾	9⅞-9⅞	10-10⅛	[illegible]	[illegible]	[illegible]

LONDON MONEY RATES

Jul 16	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
Interbank Offer	11⅛	11⅛	11 1/16	[illegible]	[illegible]	[illegible]
Interbank Bid	10½	10⅞	11	[illegible]	[illegible]	[illegible]
Sterling CDs	-	-	11	[illegible]	[illegible]	[illegible]
Local Authority Deps.	10¾	11 1/16	11	[illegible]	[illegible]	[illegible]
Local Authority Bonds	-	-	-	[illegible]	[illegible]	[illegible]
Discount Mkt Deps	10⅞	10⅞	10¾	[illegible]	[illegible]	[illegible]
Company Deposits	-	-	11⅛	[illegible]	[illegible]	[illegible]
Finance House Deposits	-	-	10 15/16	[illegible]	[illegible]	[illegible]
Treasury Bills (Buy)	-	-	10¾	[illegible]	[illegible]	[illegible]
Bank Bills (Buy)	-	-	10¾	[illegible]	[illegible]	[illegible]
Fine Trade Bills (Buy)	-	-	-	[illegible]	[illegible]	[illegible]
Dollar CDs	-	-	6.00	[illegible]	[illegible]	[illegible]
SDR Linked Dep. Offer	-	-	7 13/16	[illegible]	[illegible]	[illegible]
SDR Linked Dep. Bid	-	-	7 11/16	[illegible]	[illegible]	[illegible]
ECU Linked Dep. Offer	-	-	9 11/16	[illegible]	[illegible]	[illegible]
ECU Linked Dep. Bid	-	-	9½	[illegible]	[illegible]	[illegible]

Treasury Bills (sell); one-month 10 11/16 per cent; three months [illegible] per cent; Bank Bills (sell); one-month 10 11/16 per cent; three months [illegible]. Average tender rate of discount 10.4839 p.c. ECGD Fixed Rate Sterling Export Finance. Make up day June 28, 1991. Agreed rates for period July 24, 1991 to [illegible] p.c., Schemes II & III: 12.53 p.c. Reference rate for period [illegible] Scheme IV&V: 11.295 p.c. Local Authority and Finance Houses [illegible] days' fixed. Finance Houses Base Rate 11½ from July 1, 1991 [illegible] seven days notice 4 per cent. Certificates of Tax Deposit (Series [illegible]) held under one month 7½ per cent; one-three months 10 per cent [illegible] six-nine months 9 per cent; nine-twelve months 9 per cent; [illegible] July 15, 1991. Deposits withdrawn for cash 5 per cent.

MONEY MARKET FUNDS

Money Market Trust Funds

CAF Money Management Co Ltd [illegible]

The COIF Charities Deposit Account [illegible]

Cent. Bd. of Fin. of Church of England [illegible]

Gartmore Money Management Ltd [illegible]

Money Market Bank Accounts

AIB Bank High Interest Cheque Account [illegible]

Aitken Hume Bank plc [illegible]

Allied Trust Bank Ltd [illegible]

American Express Bank Ltd [illegible]

Bank of Ireland High Interest Cheque Acc [illegible]

Bank of Scotland [illegible]

Barclays Capital Advantage Account [illegible]

Barclays Prime Account H.I.C.A. [illegible]

Benchmark Bank PLC Premier Account [illegible]

Brown Shipley & Co Ltd [illegible]

Caledonian Bank Plc [illegible]

Cater Allen Ltd [illegible]

Charterhouse Bank Limited [illegible]

Clydesdale Bank PLC [illegible]

Co-operative Bank [illegible]

Coutts & Co [illegible]

Dartington & Co Ltd Investment A/C [illegible]

Financial & General Bank plc [illegible]

Gartmore Money Management Ltd [illegible]

Girobank plc High Interest Cheque Acc [illegible]

Humberclyde Finance Group [illegible]

Kleinwort Benson Ltd [illegible]

Lloyds Bank – Investment Account [illegible]

Midland Bank plc [illegible]

NatWest Crown Reserve Account [illegible]

Provincial Bank PLC [illegible]

Royal Bank of Scotland plc Premium Acc [illegible]

Save & Prosper/Robert Fleming [illegible]

Sterling Bank & Trust Ltd [illegible]

Tyndall & Co Ltd [illegible]

United Dominions Trust Ltd [illegible]

J. Henry Schroder Wagg & Co Ltd [illegible]

Western Trust High Interest Cheque Acc [illegible]

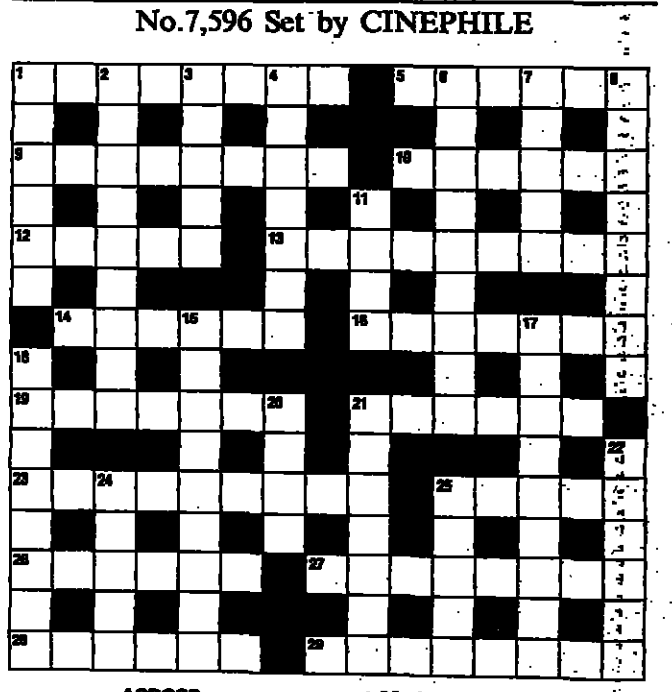
Wimbledon & South West Finance PLC [illegible]

NOTES [illegible]

JOTTER PAD

CROSSWORD

No.7,596 Set by CINEPHILE



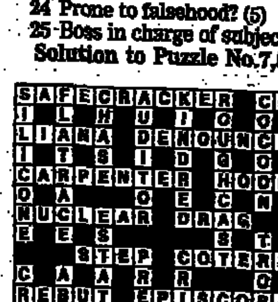
ACROSS

1 Former PM goes to prison: he prefers it inside (4,4)
5 Retreat in wood for the beast (6)
9 Not wearing lace-ups is careless (8)
10 Remit £1 for fine old fabric (6)
12 Calumny as casus belli? (5)
13 Where King Charles lost his, the fool! (9)
14 Part of boat near to painter? (6)
16 Saint is following football club – was manager in it (7)
19 Time for getting things straight? (7)
21 Beast, evasive, having broken toe (6)
23 Carriage with care (9)
25 End of thread on guitar? (5)
26 Prayer alternatively is possible (6)
27 Arctic flier to omit part of road (3,5)
28 Extra composition of elegy about first of bowlers (3,3)
29 Spotted some dry stuff in Arctic transport (8)

DOWN

1 Sleuth needed to move with expedition (6)
2 Parent at home with couple to be spliced? (9)
3 Essex don takes potherb (5)
4 Marine transport goes round house in square, for example (7)
6 It's not hard to say where hooch came from (9)
7 High pressure from the plough? (5)
8 Singer of old times? (8)
11, 20 Mozart's pack? (8)
15 Boastfulness has to alter when new lingo is introduced (9)
17 Supply barrier, we hear, to beastly noise (9)
18 Action before election gives a new name (4,4)
20 See 11
21 Medical supplies pattern at a higher price (5-2)
22 Threaten with devil at last? (6)
24 Prone to falsehood? (5)
25 Boss in charge of subject (5)

Solution to Puzzle No.7,595



WORLD STOCK MARKETS

CANADA

TORONTO

3:15 pm prices July 16

MONTREAL

3:15 pm prices July 16

Total Sales 10,168,200 shares

INDICES

NEW YORK

DOW JONES	July 15	July 12	July 11	July 10	1991 HIGH	1991 LOW	Since compilation HIGH	Since compilation LOW
◆Industrials	2990.61	2980.77	2959.75	2944.77	3035.33 (3/6)	2470.30 (9/1)	3035.33 (3/6/91)	41.22 (2/7/32)
Home Bonds	94.26	94.24	94.09	94.17	95.09 (30/5)	91.30 (16/1)	95.51 (9/2/87)	54.99 (1/10/81)
Transport	1207.69	1208.39	1213.50	1205.04	1241.89 (3/6)	894.30 (7/1)	1532.01 (5/9/89)	12.32 (8/7/32)
Utilities	198.76	198.06	196.87	195.17	220.89 (16/4)	195.17 (10/7)	236.23 (2/1/90)	10.50 (8/4/32)

◆Day's High 3007.38 (3009.35) Low 2965.79 (2942.98)

STANDARD AND POOR'S

	July 15	July 12	July 11	July 10	1991 HIGH	1991 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	382.39	380.25	376.97	375.74	390.45 (17/4)	311.49 (9/1)	390.45 (17/4/91)	4.40 (1/6/32)
Industrials	455.92	453.65	449.55	448.08	463.23 (18/4)	364.90 (9/1)	463.23 (18/4/91)	3.62 (21/6/32)
Financial	30.46	29.78	29.41	29.39	31.58 (18/4)	21.96 (9/1)	35.24 (9/10/89)	8.64 (1/10/74)
NYSE Composite	209.39	208.16	206.54	205.87	213.21 (17/4)	170.97 (9/1)	213.21 (17/4/91)	4.46 (25/4/42)
Amex Mkt. Value	365.78	364.14	361.84	361.94	373.40 (18/4)	296.72 (14/1)	397.03 (10/10/89)	29.31 (9/12/72)
NASDAQ Composite	496.19	492.71	488.37	487.17	511.31 (17/4)	355.75 (14/1)	511.31 (17/4/91)	54.87 (31/10/72)

	July12	July 5	June28	year ago (approx.)
Dow Industrial Div. Yield	3.08	3.14	3.16	3.62

	Jul 10	Jul 3	Jun 26	year ago (approx.)
S & P Industrial div. yield	2.79	2.81	2.83	2.96
S & P Indl. P/E ratio	18.89	18.77	18.68	16.95

NEW YORK ACTIVE STOCKS

Monday	Stocks traded	Closing price	Change on day
Chem. Bank	5,162,500	26½	+ 2¼
Mfrs. Han.	3,669,600	29¼	+ 6
Waste Man.	2,719,400	35⅞	+ ⅝
Pepsi Co	2,441,800	30	+ 1
Telefonos	2,303,400	31¼	+ 1¼
Chase Man.	2,247,100	19⅞	+ 1⅞
RJ Nabisco	2,217,000	11½	+ ¼
Philip Mor.	2,003,000	68¾	+ 1
Triton	1,833,800	25	+ 1½
Westnghs El	1,625,400	25	- ⅜

TRADING ACTIVITY

† Volume (Millions)	July 16	July 12	July 11
New York SE	159.340	173.060	158.413
Amex	10.284	9.351	9.578
NASDAQ	137.953	155.467	140.025
NYSE			
Issues Traded	2,050	2,068	2,044
Rises	989	1,016	845
Falls	600	499	610
Unchanged	461	553	589
New Highs	95	76	49
New Lows	4	18	13

CANADA

TORONTO	July 16	July 12	July 11	July 10	1991 HIGH	1991 LOW
Metals & Minerals	3219.27	3210.40	3189.36	3194.80	3284.18 (5/3)	2632.06 (9/1)
Composite	3526.90	3516.34	3507.89	3504.17	3582.07 (7/6)	3161.95 (15/1)
MONTREAL Portfolio	1879.82	1873.61	1868.19	1866.25	1903.86 (7/6)	1686.89 (9/1)

Base values of all indices are 100 except NYSE All Common—50; Standard and Poor's—10; and Toronto Composite and Metals—1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds.‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

	Jul 16	July 15	July 12	July 11	1991 HIGH	1991 LOW
AUSTRALIA						
All Ordinaries (1/1/80)	1541.2	1539.2	1531.9	1534.2	1598.3 (29/4)	1204.5 (16/1)
All Mining (1/1/80)	683.6	682.1	679.0	682.7	698.0 (10/7)	561.6 (16/1)
AUSTRIA						
Credit Aktien (30/12/84)	492.59	492.38	491.74	492.66	534.81 (16/4)	390.84 (15/1)
BELGIUM						
BEL20 (1/1/91)	1146.47	1146.82	1150.24	1148.92	1212.15 (17/4)	917.59 (17/1)
DENMARK						
Copenhagen SE (3/1/83)	380.61	379.74	378.97	378.07	380.61 (16/7)	302.26 (8/1)
FINLAND						
HEX General (28/12/90)	978.6	975.8	983.0	978.8	1186.9 (8/4)	898.5 (23/1)
FRANCE						
CAC General (31/12/82)	467.36	466.52	468.32	467.08	494.95 (12/6)	394.88 (15/1)
CAC 40 (31/12/87)	1755.51	1759.77	1754.29	1754.03	1874.81 (11/6)	1425.26 (15/1)
GERMANY						
FAZ Aktien (31/12/58)	687.24	688.85	689.92	684.81	717.43 (17/6)	570.48 (15/1)
Commerzbank (1/12/53)	(u)	1938.8	1944.2	1929.6	2035.2 (31/5)	1612.5 (15/1)
DAX (30/12/87)	1643.85	1646.57	1644.76	1637.85	1715.80 (11/6)	1311.82 (16/1)
HONG KONG						
Hang Seng Bank (31/7/64)	3997.67	3945.12	3915.37	3892.12	3997.67 (16/7)	2984.01 (16/1)
IRELAND						
ISEQ Overall (4/1/88)	1370.11	1352.74	1343.40	1355.40	1526.65 (15/3)	1114.86 (25/1)
ITALY						
Banca Com. Ital. (1972)	559.90	564.28	567.26	568.11	619.38 (3/6)	486.26 (29/1)
JAPAN						
Nikkei (16/5/49)	23375.15	23459.04	23137.78	22937.92	27146.91 (18/3)	22176.17 (8/7)
Tokyo SE (Topix) (4/1/68)	1822.70	1829.66	1805.53	1798.87	2028.85 (18/3)	1625.80 (17/1)
2nd Section (4/1/68)	3145.45	3144.53	3125.91	3114.39	3423.45 (10/5)	2473.52 (24/1)
MALAYSIA						
KLSE Composite (4/4/86)	595.28	594.25	598.60	603.76	635.02 (29/5)	470.41 (16/1)
NETHERLANDS						
CBS Ttl.Rtn.Gen.(End 1983)	280.0	278.5	276.5	278.2	284.8 (5/6)	221.4 (16/1)
CBS All Shr (End 1983)	199.5	198.5	197.8	198.2	203.1 (5/6)	162.3 (16/1)
NORWAY						
Oslo SE (Ind) (2/1/83)	770.63	772.56	772.44	771.97	792.13 (4/6)	610.45 (21/1)
PHILIPPINES						
Manila Comp (2/1/85)	998.22	993.91	990.25	984.14	1183.48 (29/5)	582.64 (10/1)
SINGAPORE						
SES All-Singapore (2/4/75)	394.95	395.18	396.34	396.42	422.43 (26/4)	315.07 (16/1)
SOUTH AFRICA						
JSE Gold (28/9/78)	1371.0	1385.0	1358.0	1391.0	1469.0 (5/7)	971.0 (25/2)
JSE Industrial (28/9/78)	3976.0	3976.0	3948.0	3969.0	4036.0 (10/7)	2829.0 (16/1)
SOUTH KOREA**						
Korea Comp Ex. (4/1/80)	636.14	635.21	631.78	621.74	697.62 (4/1)	590.57 (22/6)
SPAIN						
Madrid SE (30/12/85)	270.80	267.36	267.36	264.08	289.22 (18/3)	213.70 (14/1)
SWEDEN						
Affarsvärlden Gen. (1/2/37)	1147.90	1144.8	1146.8	1149.8	1149.8 (11/7)	808.4 (8/1)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	767.2	765.3	762.6	755.0	767.2 (16/7)	590.4 (14/1)
SBC General (1/4/87)	633.2	631.3	628.8	624.1	638.0 (31/5)	487.1 (14/1)
TAIWAN**						
Weighted Price (30/6/66)	5173.75	5283.19	5327.18	5312.32	6305.22 (9/5)	3316.26 (15/1)
THAILAND						
Bangkok SET (30/4/75)	677.44	677.83	674.71	688.98	908.13 (19/4)	582.48 (16/1)
WORLD						
M.S. Capital Intl.(1/1/70) (§)	497.4*	497.3	492.3	487.3	529.2 (17/4)	439.1 (16/1)

**Saturday July 13: Taiwan Weighted Price: 5412.23 Korea Comp Ex. 636.50.
§ Subject to official recalculation. *Calculated at 15.00 GMT.
Base values of all indices are 100 except: BEL20, HEX General, ISEQ Overall and DAX—1,000, JSE Gold—255.7, JSE 25 Industrials—264.3 and Australia All Ordinary and Mining—500; (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks

Tuesday 16 July 1991

	Stocks Traded	Closing Prices	Change on day
Mitsumi Electric	10.1m	1,850	+60
Kitano Const.	7.3m	2,340	-100
Takuma	6.0m	1,220	-60
Akai Electric	5.8m	1,300	-50
Sata Const.	5.3m	1,390	+20
Hitachi	5.0m	1,130	-30
Clarion	4.7m	1,150	+20
Nihon Nohyaku	4.6m	2,000	-60
Sumitomo Metal	4.3m	428	-4
Nippon Carbon	4.0m	901	-9

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

3:15 pm prices July 16

1991 High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
15⅞	9¼	AAR Corp x	0.48	0.03	16	324	15½	15¼	15⅜	+⅛
18¾	14½	A L Labs A	0.16	0.01	16	76	16⅜	16⅛	16¼	+⅛
55½	40⅞	AMP Inc	1.44	0.03	20	733	53⅜	52⅞	53	-⅛
68⅝	44¼	AMR			19	2696	64⅝	64	64	-1
2⅝	1¼	ARX			1	110	1½	1⅜	1½	
66	41½	ASA	3.50	0.06	15	764	53¼	52⅞	53⅛	-⅛
54	38¼	Abbott Lab x	1.00	0.02	21	2868	51⅞	51¼	51⅜	-¼
14½	9⅞	Abitibi Pr x	0.50	0.04	26	5	13¾	13¾	13¾	+⅞
11⅝	10⅜	ACM Gvt In x	1.26	0.11		652	11¼	11⅛	11¼	
9¼	8¼	ACM GvOpp x	1.01	0.11		77	9¼	9⅛	9¼	+⅛
9¼	8¼	ACM Gvt Sp	1.01	0.11		303	9	8⅞	9	
11	9⅞	ACM Gvt Se	1.26	0.12		1173	10⅞	10¾	10⅞	+⅛
8⅝	7⅞	ACM Mun x	1.01	0.12		252	8¼	8⅛	8¼	
12⅞	11½	ACM Mangd x	1.35	0.11		143	12⅛	12	12	
7½	4⅛	Acme Cleve	0.40	0.06	15	106	6⅝	6⅜	6⅝	+⅛
6	3½	Acme Elect			38	12	3⅞	3⅞	3⅞	-⅛
40	22¾	Acuson			25	1076	34⅝	33⅝	34⅜	+⅞
18½	14¼	Adams Expr x	0.48	0.03	0	45	18⅜	18	18¼	+¼
20¼	18	Adobe12Pf	2.40	0.13		54	18½	18⅛	18¼	-⅛
9¼	6⅜	Adobe Res			20	44	7	6⅞	6⅞	
38⅝	16	Ad Micro				358	36⅛	34⅜	34⅜	-1⅜
14⅛	4⅝	Ad Micro P	3.00	0.25	13	1577	12⅜	11⅞	12⅛	-1⅜
5⅛	2¼	Advest Grp	0.16	0.04	6	125	4½	4⅜	4½	+⅛
49½	33⅞	Aetna Lf	2.76	0.06	8	941	42⅞	42⅜	42½	+⅝
10⅝	6⅜	Ahlf A	0.24	0.03	35	303	9	8¾	8¾	-¼
20¼	12	Ahmanson	0.88	0.05	10	610	18⅛	17¾	17⅞	+⅛
12¾	2⅞	Aileen Inc			16	72	12¼	12⅛	12⅛	-⅛
74½	51⅛	Air Pr Chm	1.44	0.02	15	736	66⅞	65⅝	66⅜	+⅛
26⅝	16⅝	Airbne Frt	0.30	0.01	16	370	26⅜	26	26⅛	-⅛
18⅞	12½	Airgas Inc			71	41	15	14⅝	15	+¼
15¼	10	Airlease	2.29	0.19	6	13	12½	12¼	12¼	-¼
94	88¼	AlaPw8.16				z100	92½	92½	90	-2½
24¾	21⅛	AlaPw PfA	2.00	0.08		15	24⅝	24½	24⅝	
104½	100	AlaPw9.44				z100	103	103	101	-2
108	102⅝	Alab Pw 11				2	104	104	104	
102½	96	Alab Pw 9P				5	99	99	100	+1
95	88	Alab 8.28C				2	92½	92	92½	+1½
10¼	9⅜	AlaPwDpPf				z100	10	10	9⅞	
26⅞	17½	Alaska Air x	0.20	0.01	148	439	23⅞	23⅛	23⅞	+¼

1991 High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
40⅛	35⅝	Brinkerint				1242	u41⅞	40⅝	41½	+1⅜
84¾	61¼	Bristol M	2.40	0.03	23	3609	83½	82¼	82⅜	-⅞
33¾	24½	Brit Airwy	2.10	0.07	12	1696	28⅞	28⅝	28¾	
49⅞	39	Brit Gas	2.50	0.06	11	143	43¼	42¾	43¼	+1¼
77½	63⅞	BP ADR	4.56	0.06	7	2170	70	69⅜	69⅞	-½
32⅞	26⅝	BP Prudhoe	3.35	0.11	9	253	30⅛	30	30	
6⅞	3½	BP Wts93				1508	4⅞	4⅝	4¾	
27⅝	19⅞	Brit Steel	2.14	0.10	12	249	21⅝	21⅜	21½	+⅛
66	51¼	Brit Tel	3.24	0.05	10	191	61⅛	61	61	
12⅞	4⅝	Broad Inc	0.20	0.02	7	730	11⅛	11	11⅛	+⅛
30¼	27½	BrkInPld				26	u30¼	29⅛	29⅛	
29⅝	27	Brooklyn U x	1.90	0.07	12	143	28½	27¾	27¾	-⅜
84½	76	BrwnFormnB	2.24	0.03	14	36	78	77½	77⅞	-⅛
28	21⅞	Brown Grp	1.80	0.06	16	113	25⅜	25	25⅛	+⅛
12⅝	5⅝	Brown&Shrp				2z100	8¼	8¼	8⅝	
30¾	20⅛	Browning F	0.68	0.02	18	2179	27⅞	27¼	27⅞	
4⅜	2¼	BRT			0	22	3½	3⅜	3½	
16⅞	8⅝	Brunswick	0.44	0.03	16	1777	14⅜	14⅜	14¾	+¼
20	14⅛	Brush Well	0.72	0.04	17	626	18⅛	17¾	18	+¼
27½	23⅝	Buckeye Pt	2.60	0.10	9	48	25⅜	25	25⅜	+¼
15⅞	13	Bunker Hil	1.87	0.12	0	46	15⅝	15¼	15¼	-⅜
13¾	10¼	Burger K I	1.66	0.14	12	29	11⅜	11¼	11⅜	
15⅛	8⅜	Burl Coat			12	50	13⅞	13⅞	13⅞	
35¾	26¼	Burl North	1.20	0.04	14	1121	30⅞	30⅜	30¾	
41⅛	32⅞	Burlin Resc	0.70	0.02	28	1556	39	37¾	39	+1
16	11¼	Burnham Pc	1.38	0.09	52	86	14⅜	14½	14¾	+⅜
2⅞	¼	Businessln			0	170	13/16	¾	13/16	+1/16

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1991 High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
24½	15	C & S/Sovr	1.56	0.06	24	8465	u25⅛	24½	25	+⅞
34¾	23½	CBI Ind	0.46	0.01	16	468	u34⅞	34¼	34⅝	+½
188⅜	150¼	CBS Inc	1.00	0.01	109	225	174⅝	172	173½	+1
1	⅜	CCX Inc				0z100	⅜	d⅜	⅜	
2½	⅞	CF Inc Uts	0.56	0.39	2	12	1½	1½	1½	-⅛
33	21⅞	CMS Energy	0.48	0.02	3	1845	22	d21¼	21¾	-⅛

Continued on next page

NYSE COMPOSITE PRICES

1991 High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close	Ch'ge Prev. Close
51	49¼	Xerox4.125			6		u61	50½	61	
21¼	14¼	Xtra 1.94			10		20¼	20	20¼	−⅛
24⅞	14¼	Xtra Corp	0.72	0.03	204	5	23⅞	23½	23½	−¼
24¼	21⅞	Yankee Egy	1.80	0.07	12	68	22⅝	22⅛	22⅛	−⅛
1½	⅞	Zapata			0	215	1⅛	1	1	−⅛
9⅝	6⅛	ZenithElec			2	228	6⅞	6⅛	6¾	−⅛
18½	12	Zenith Nat	1.00	0.05	75	105	18⅞	18¼	18¼	+⅛
6¼	4½	Zentz Inc	0.99	0.16		42	6⅛	6	6	−⅛
15⅛	10⅞	Zero Corp	0.40	0.03	16	42	14⅞	14⅜	14⅜	+⅛
41⅞	39½	Zurn Ind	0.88	0.02	15	227	37¼	36⅞	37⅛	+1
13½	10¼	Zweig Fund x	1.12	0.09		267	12⅝	12½	12½	−⅛
10	8½	Zweig Tot x	0.96	0.10		435	u10	9⅞	9⅞	

Price data supplied by Telekurs.

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

3:00 pm prices July 16

NASDAQ NATIONAL MARKET

3:15 pm prices July 16

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
ASKBrands	0.40	25	1137	36½	35⅞	36	−¼
ACC Corp	0.16	18	6	9⅝	9⅛	9⅝	−⅛
Acclaim E		8	614	3⅞	3½	3⅛	
AcmeSteel		20	11	14½	14	14½	+½
Acxom Cp		13	118	10⅝	10⅜	10⅜	+¼
Adaptech		11	228	13⅞	12¾	13⅛	+¼
ADC Tele		20	216	39½	38¾	39¼	−¼
Addington		91	15	8¼	7¾	8¼	+⅞
Adia Serv	0.16	20	118	23¼	22½	23	
Adobe Sys	0.32	22	1610	49½	47¼	48	−½
ADT Adr	0.32	4	1651	10½	10¼	10⅜	
Advance C		7	262	8⅝	8⅜	8½	−⅛
Adv Logic		11	2328	14¼	13½	14¼	+⅝
Adv Polym		12	385	u5⅜	5⅛	5⅜	
Adv Tele		15	2344	19¾	19¼	19¾	+¼
Advanta	0.20	11	2761	19¾	18½	19⅛	+¼
Advo Sys		18	263	19	18¾	19	+⅛
Aegon Adr	0.64	5	50	58½	58¼	58½	
Affiliate		0	14	⅜	d⅞	⅜	
Agency Re		15	856	9⅛	8⅞	9	
AgnicoEa	0.07	3	178	5⅞	5	5¼	−⅛
Air Midws		7	570	u10⅝	9¾	10⅞	
Air Wisc		13	122	10	9⅝	9⅝	+⅛
Akzo ADR	1.08		765	28⅜	28	28⅜	−⅛
Aldus Cp		24	863	45½	43¾	44¼	−¾
Alex Brwn	0.28	16	452	17¼	16¼	17	+1¼
Alex Bald	0.88	13	451	23⅛	22¾	23⅛	+⅛
Allegh &W		18	6	4⅞	4⅞	5	
Allen Org	0.40	9	14	32¼	31½	32	−1½
Allen Ph		10	341	12⅛	11¾	12⅛	+⅛
Alliant		0	23	⅞	¾	⅞	+⅛

INDIA

The FT proposes to publish this survey on **5 September 1991** and it will be distributed to 160 countries worldwide. If you want to reach this important audience, call Louise Hunter on 071 873 3238 or fax 071 873 3079.

FT SURVEYS

ZIMBABWE

The FT proposes to publish this survey on **27 August 1991** and it will be distributed to 160 countries worldwide. If you want to reach this important audience, call Louise Hunter on 071 873 3238 or fax 071 873 3079.

FT SURVEYS

FINANCIAL TIMES

Wednesday July 17 1991

AMERICA

Greenspan's testimony fails to inspire equities

Wall Street

SHARE PRICES faltered yesterday morning, in spite of a generally upbeat appraisal of economic conditions by the chairman of the Federal Reserve, *writes Patrick Harverson in New York*.

At 1 pm the Dow Jones Industrial Average was down 1.79 at 2,988.82. There was a similar lack of movement among other leading indices, with the broadly based Standard & Poor's 500 down 0.49 at 381.90 at 1 pm, and the Nasdaq composite of over-the-counter stocks 0.37 weaker at 495.82. Volume was surprisingly sprightly at 111m shares by 1 pm.

The ripples from Monday's unexpected merger between Chemical Bank and Manufacturers Hanover had disappeared by the opening. In the absence of fresh economic statistics, the only likely source of direction was Mr Alan Greenspan's testimonial before Congress. In the event, the Fed chief was optimistic about the economy but said little that was new, categorising current monetary policy as "watchful waiting", and saying that he saw no evidence of a double-dip recession.

The bank sector remained lively, although profit-taking was evident in a number of stocks. Monday's two newsmakers both fell, Chemical Bank easing $⅜ to $25⅞ and Manny Hanny giving up $⅜ to $28¾, both in active trading. There were similar losses at J.P. Morgan, down $½ at $53¾, but BankAmerica held firm at $37⅛ and Chase Manhattan, regarded as the most likely candidate for the next merger, rose $⅛ to $20¼.

Citicorp, the biggest bank in the country, edged $⅛ higher to $14⅞, while large declines in second-quarter earnings unsettled Security Pacific, which fell $⅝ to $24¼, and Wells Fargo, down $2 at $74⅝.

Second-quarter results continued to pour in. Merrill Lynch slipped $⅝ to $42⅞ in spite of record quarterly earnings of $184m, which were in line with expectations, but Primerica rose $1¼ to $30⅞ after announcing profits of $117.3m, which included record income at its broking subsidiary, Smith Barney.

There was a strong showing from Marvel Entertainment, the comic book publisher which went public yesterday in a 4.2m share offering, priced at $16.50. The price range and size of the offering was increased because of the demand for the stock, which by early afternoon was trading at a substantial premium at $18⅞, on volume of 1.6m shares.

Triton Oil jumped $2⅞ to $27⅞ in active trading as investors continued to buy the issue on the strength of prospects for Triton's new oil well in Colombia.

Warner-Lambert slipped $1¼ to $68¼ on 1.3m shares after two broking houses cut their ratings on the stock following a disappointing review of the company's drug for Alzheimer's disease by the Food and Drug Administration on Monday.

Canada

TORONTO was marginally higher at midday in thin trading. The composite index was up 2.00 at 3,528.90 on volume of 12.6m shares. Advances led declines by 121 to 113.

Inco rose C$⅝ to C$43¼. Nickel prices in London rallied $75 to $8,575 a tonne.

The holding company International Semi-Tech, which has interests in the Singer Sewing Machine Company, rose C$⅝ to C$14⅞ in volume of 200,525 shares. A spokesman said that the company is currently in the US promoting its shares to institutional investors after stops in Europe and the Pacific Rim.

Privatisation adds to Indonesia's problems

The government's flop will hamper the stock market's recovery, says Claire Bolderson

WHEN Baring Securities predicted two months ago that the fate of the Indonesian government's first shot at privatisation would be "a vital indicator of the state of the stock market", it could not have been more right.

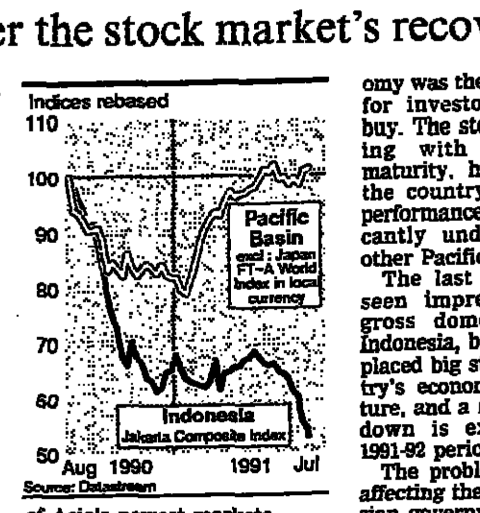
When Semen Gresik, a state-owned cement producer, made its debut on the Jakarta Stock Exchange (JSE) last week, the price of its 40m shares slumped almost 20 per cent from its offer price on the first day.

Brokers say that further privatisation plans, which were to have included two more state cement companies, are now likely to be put on hold while the market languishes in what Baring describes as subdued and directionless trading.

The Indonesian stock market is far from the heady days of early 1990, when the effects of sweeping deregulation were being felt in full. In April 1990 the composite index reached its all-time high of 681.94. Since then it has fallen rapidly with the occasional brief upward blip. It reached a low of 371.19 on December 5, before rising to 427.02 in February, and subsiding again to 324.13 yesterday.

The Indonesian government's financial reforms at the end of 1988, aimed largely at attracting foreign investors, were highly successful. A moribund JSE, with only 24 listed companies and very little trading, was transformed into a dynamic new market. By the middle of last year, the number of listed companies had increased nearly fourfold to 90. Now there are 130, with a market capitalisation of $23bn.

Trading, however, has slowed almost to a halt this year. About 50 companies are queueing to list their shares on the JSE, but demand has fallen away. As one foreign broker says, "there is a very different mood" to that of last year, when Indonesia's buoyant economy attracted a flood of international investors to one



of Asia's newest markets.

The JSE's dark days, like those of older markets around the world, began during the Gulf crisis and the onset of recession in the West in August last year. However, according to one analyst working in Jakarta, the Gulf war was also partly an excuse; the state of the Indonesian economy was the underlying reason for investors' reluctance to buy. The stock market, behaving with uncharacteristic maturity, has been reflecting the country's poor economic performance ever since, significantly underperforming the other Pacific Rim markets.

The last three years have seen impressive growth in gross domestic product in Indonesia, but that growth has placed big strains on the country's economy and infrastructure, and a much needed slowdown is expected over the 1991-92 period.

The problem most seriously affecting the JSE is the Indonesian government's tight monetary policy, introduced in the middle of 1990 in an attempt to curb rising inflation and bring the money supply under control. Bank deposit interest rates rose from 16 per cent to 28 per cent by the end of last year, and although the central bank has relaxed its grip slightly in recent weeks, bank rates still stand at 24 per cent. They are not expected to fall by more than one or two percentage points this year.

Companies wanting to expand, but unable to afford bank interest rates, are therefore looking to the stock market as a source of funding, only to find that investors are holding on to their money.

While brokers in Jakarta see little sign of an improvement in trading before the end of the year, and even predict that things could get worse before they get better, they point out that this could have positive consequences in the long term by bringing about an important correction in what was a highly overvalued market.

"The market is correcting itself – it is working," says a foreign broker in Jakarta. He adds that the market will look more attractive, especially to foreign investors, as the index falls even further. "When it gets to 300, people will come in," he predicts.

ASIA PACIFIC

Nikkei falls as Hong Kong hits all-time high

Tokyo

A FALL in the futures market prompted a decline in share prices yesterday. Volume was light, even though the Big Four brokerages – Nomura, Daiwa, Nikko and Yamaichi – resumed normal business operations following their four-day suspension period, *writes Emiko Terazono in Tokyo*.

The Nikkei average fell 83.89 to 23,375.15 after trading in a tight range between 23,598.30 and 23,374.16. Volume rose slightly to 300m shares.

Market share for the Big Four rose to 31.21 per cent yesterday from a daily average of 13.47 per cent during the four-day punishment period. Yamaichi topped yesterday's list with 8.4 per cent, Daiwa had 8.21 per cent, Nikko 8.2 per cent and Nomura 6.4 per cent.

Declines led advances by 480 to 443, with 194 issues remaining unchanged. The Topix index of all first-section stocks fell 6.96 to 1,822.70 and, in London trading, the ISE/Nikkei 50 index rose 2.73 to 1,392.12.

Sentiment deteriorated on rumours that the police had raided a crime syndicate, and that a former employee of a leading brokerage had been arrested for fraud.

Foreigners, who picked up bargains last week, were net sellers during the morning. The 23,500 level on the Nikkei is seen as a resistance point.

Speculative issues continued to gain. Minebea, the bearings maker, rose Y51 to Y842 on rumours that speculators were looking for quick profits. Kitano Construction lost Y100 to Y2,340 on profit-taking, as funds shifted to Sata Construction. Sata added Y20 to Y1,390.

Ishikawajima-Harima Heavy Industries dropped Y32 to Y637. Reports that it held deposits with BCCI, which the company later confirmed, discouraged investors.

Traders said that leading brokerages were recommending shares with a high level of exports to Asia as they expected companies exporting to south-east Asia to perform better than those with close links to Europe and the US. Mitsumi Electric, the most active issue of the day, rose Y60 to Y1,850 and Victor of Japan added Y50 to Y1,850.

In Osaka, the OSE average rose 206.50 to 26,367.09 on volume of 26.4m shares, up from Monday's 21.9m.

Roundup

PACIFIC Rim markets were little changed, with the exception of Hong Kong and Taiwan.

HONG KONG closed at an all-time high. The Hang Seng index rose to 4,000.64 before closing 52.55 or 1.3 per cent higher at 3,997.67, breaking the previous record set in October 1987. Turnover swelled to HK$2.62bn from HK$2.12bn.

Property shares led gains on hopes of a property boom following the airport agreement.

TAIWAN fell on selling by individual investors, following newspaper reports that South Korea might switch its recognition to China. The weighted index lost 109.44 or 2.1 per cent to 5,173.75 in turnover of T$26.6bn, up from T$24.7bn.

SINGAPORE's Straits Times Industrial index rose 1.52 to 1,465.36, but the wider market eased on profit-taking. Volume was thin at 32.3m shares, down from 36.7m.

The flotation of SAL Leasing closed yesterday. Its share price rose to S$1.15 on the grey market, compared with an offer price of 80 cents.

MANILA lost initial gains on uncertainty over a three-day national strike, set to begin tomorrow. The composite index shed 0.69 to 993.22.

NEW ZEALAND partially recovered from an early slide caused by continued weakness in Fletcher Challenge. The stock fell 7 cents to a day's low of NZ$3.74 on concerns over the group's debt levels. But a reassuring statement from the company helped shares to close at NZ$3.79, down 3 cents.

The NZSE-40 index lost 11.43 to 1,480.71. Turnover rose to NZ$19.5m from NZ$14.8m.

AUSTRALIA traded in a narrow range. The All Ordinaries index gained 2.0 to 1,541.2. Turnover rose to A$171m from A$113m, boosted by the listing of converting preference shares in ANZ.

BOMBAY was lifted by the railway budget which was less austere than expected. The BSE index rose 24.40 to 1,431.75.

SOUTH AFRICA

THE FALLING financial rand helped Johannesburg build upon Monday's gains. The all-share and industrial indices each gained 20, to 3,463 and 3,996 respectively. But the all-gold index eased 14 to 1,371 on flat bullion prices.

EUROPE

Lack of action on interest rates disappoints Paris

CONFIRMATION of forecasts that French inflation had fallen below Germany's for the first time since 1973 gave Paris a temporary boost yesterday. But it fell back again on interest rate disappointment, *writes Our Markets Staff*.

PARIS lost its early gains in moderate trading. Yesterday's inflation figure for the 12 months to June of 3.3 per cent had encouraged mild speculation about an interest rate cut, but hopes faded when the Bank of France left the intervention rate unchanged. The CAC 40 index closed 4.26 lower at 1,755.51, after reaching a day's high of 1,770.21.

Société Auxiliaire d'Entreprises, the construction company, was briefly suspended, before rising FFr14 to FFr1,174. Mr Michel Pelège, the property developer, said he had agreed to sell most of his stake in SAE to a group of banks.

Some financial stocks continued to rise, with Société Générale up FFr7.60 at FFr435.60 on volume of 175,730 shares. The best blue-chip gain was by Michelin, the tyremaker, which added FFr2.35 or 2.4 per cent to FFr99.50.

FRANKFURT saw action in a few individual stocks as some dealers talked of listless trading and others saw interest from home and abroad.

Volume was steady at DM3.8bn. Mr Detlev Klug of B Metzler in Frankfurt said that the firm had seen good orders, both from institutions and foreign funds. The DAX index closed 2.72 lower at 1,643.85 after a decline of 0.81 to 687.24 in the FAZ at midsession.

Veba was active for the second day, rising DM5 to DM348.50 on turnover of DM546m, as traders talked of ways that the group might release value trapped in its energy, chemicals and trading subsidiaries.

Mr Ernst von Randow, who analyses utilities, financials and retailers for Metzler, said that Veba had been approached recently with the idea of hiving off a small slice of the shares in selected group companies. "They've said that they don't plan to do that," he reported.

MILAN ended the July account in a glum mood. The Comit index fell 4.38 to 559.90 in volume estimated at L120bn-L130bn, inflated to more than Monday's L108bn by account-end transactions.

Traders were worried that shares would weaken further in the new account, following reports that professionals were paying a premium in order to carry their short positions into the new account.

Fiat was officially set L19 higher at L6,200, but fell to L6,090 after hours on reports of professional short positions amounting to 9m shares.

The market was also expected to be weak today as many large-capital stocks, including Generali, Montedison and Fiat, go ex dividend. Generali led insurers lower, closing L400 off at L31,150 and shedding a further L250 after hours.

ZURICH closed flat to modestly higher in light trading, the Crédit Suisse index ending unchanged at 544.6.

Attention spread from chemicals and pharmaceuticals to industrials and banks. In pharmaceuticals, Sandoz bearers added SFr30 to SFr2,570 while the market waited for the news, after hours, that first-half sales were up 2 per cent in Swiss francs and 6 per cent in local currency terms, and that earnings for 1991 should be "satisfactory".

STOCKHOLM edged higher after a weak opening, helped by strong foreign interest in Astra, the pharmaceutical group, and better-than-expected economic figures. Sweden's consumer prices index for June fell 0.1 per cent from May, and the SKr7.8bn trade surplus was double market expectations.

The Affärsvärlden General index rose 3.1 to 1,147.9, as turnover grew to SKr330m from SKr183m. Astra free B shares rose SKr11 to SKr685.

COPENHAGEN recorded a slight rise, but turnover was mostly low. The bourse index rose 0.27 to 380.01, another year's high.

MADRID moved higher for the second day in a row, but trading remained quiet. The general index added 0.98 to 270.80 in turnover of about Pta9bn, after Monday's Pta10.5bn.

AMSTERDAM ended off the day's highs after a disappointing start on Wall Street. The CBS tendency index ended 0.3 up at 93.9 after reaching 94.1.

OSLO's all-share index slipped 1.43 to 506.87 in trading worth NKr194.4m. Kvaerner, the shipping and engineering company, announced a NKr1.5bn contract to supply five refrigerator ships to US-based Chiquita Brands International. Kvaerner B shares firmed NKr5 to NKr232.5.

HELSINKI recovered after a weak start, but volume was low. The Hex index rose 0.28 to 978.6 in turnover of FM16.6m, of which free shares made up FM7.9m.

FT-SE Eurotrack 100 - Jul 16

Hourly changes

Open	10 am	11 am	Noon	1 pm	2 pm	3 pm	Close
1115.28	1115.44	1114.39	1113.42	1113.24	1112.51	1111.79	1110.41

Day's High 1115.48 Day's Low 1110.19

Jul 15	Jul 12	Jul 11	Jul 10	Jul 9
1111.59	1107.36	1109.88	1109.33	1102.41

Base value 1000 (26/10/90)

FT-ACTUARIES WORLD INDICES

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NATIONAL AND REGIONAL MARKETS	MONDAY JULY 15 1991								FRIDAY JULY 12 1991					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	1991 High	1991 Low	Year ago (approx)
Australia (69)	143.96	+0.9	129.18	124.37	133.81	124.01	+0.5	5.18	142.68	128.24	123.33	132.71	123.37	147.30	112.74	149.36
Austria (20)	178.60	+1.6	160.23	154.27	165.97	166.40	+0.1	1.66	175.75	157.97	151.93	163.47	166.21	222.37	167.00	274.50
Belgium (48)	126.63	+0.0	113.61	109.38	117.68	115.23	+0.0	5.12	126.64	113.83	109.46	117.79	115.24	151.20	121.73	152.08
Canada (115)	139.66	+0.5	125.30	120.63	129.78	115.90	+0.4	3.35	138.93	124.87	120.09	129.21	115.49	142.27	126.49	142.05
Denmark (37)	249.80	+0.3	224.11	215.78	232.14	235.53	+0.2	1.50	248.93	223.74	215.19	231.53	234.97	270.56	217.74	265.48
Finland (18)	94.34	+0.0	84.64	81.49	87.67	85.36	+0.0	2.82	94.34	84.80	81.55	87.75	85.36	125.15	90.00	133.68
France (113)	126.94	+0.2	113.89	109.65	117.96	120.82	+0.2	3.66	126.64	113.83	109.47	117.78	120.63	152.28	120.60	159.91
Germany (65)	106.50	−0.2	95.55	92.00	98.97	98.97	−0.3	2.26	106.72	95.92	92.27	99.26	99.26	125.35	102.03	138.96
Hong Kong (55)	164.92	+0.9	147.96	142.45	153.27	164.35	+0.8	4.23	163.50	146.95	141.33	152.08	162.97	164.92	119.62	143.84
Ireland (18)	142.08	+1.2	127.47	122.73	132.04	134.09	+0.7	3.81	140.46	126.25	121.42	130.64	133.10	182.46	132.88	186.35
Italy (77)	72.16	−0.5	64.74	62.32	67.05	71.73	−0.6	3.26	72.52	65.18	62.69	67.45	72.16	88.23	70.54	105.11
Japan (474)	130.63	+1.4	117.20	112.83	121.41	112.83	+1.3	0.75	128.86	115.82	111.39	119.87	111.39	146.97	118.35	154.68
Malaysia (68)	225.74	−0.1	202.53	194.98	209.78	241.78	+0.0	2.73	225.92	203.06	195.29	210.13	241.89	247.78	192.83	248.68
Mexico (16)	1115.18	+2.0	1000.52	963.28	1036.36	3676.75	+2.0	1.48	1092.84	982.25	944.67	1016.44	3603.07	1115.18	594.45	526.12
Netherland (31)	134.27	+1.0	120.46	115.98	124.78	123.33	+0.8	4.35	132.96	119.50	114.93	123.67	122.31	145.73	125.70	145.49
New Zealand (13)	48.48	+0.7	43.49	41.88	45.05	45.69	+0.5	7.68	48.14	43.27	41.62	44.78	45.48	54.64	41.18	70.06
Norway (32)	193.48	+0.2	173.59	167.13	179.81	183.44	+0.0	1.60	193.12	173.58	166.94	179.62	183.42	223.24	182.24	249.85
Singapore (38)	191.71	−0.1	172.00	165.60	178.16	154.56	−0.1	2.21	191.84	172.42	165.83	178.42	154.66	208.25	151.69	208.93
South Africa (61)	253.92	+0.1	227.81	219.33	235.97	173.45	+1.2	3.15	253.76	228.08	219.35	236.01	171.46	255.76	173.00	179.78
Spain (55)	143.68	+1.2	128.91	124.12	133.53	122.24	+0.8	4.39	142.02	127.65	122.76	132.08	121.25	171.12	131.51	182.25
Sweden (26)	192.32	+0.2	172.54	166.13	178.73	184.56	+0.2	2.45	191.87	172.46	165.86	178.47	184.20	204.12	146.60	230.20
Switzerland (58)	91.31	+0.5	81.92	78.88	84.87	87.63	+0.5	2.20	90.82	81.63	78.51	84.48	87.22	100.67	82.17	107.61
United Kingdom (240)	166.59	+1.4	149.46	143.88	154.80	149.46	+1.3	4.91	164.21	147.60	141.94	152.72	147.60	187.44	156.27	174.72
USA (528)	154.84	+0.6	138.92	133.75	143.90	154.84	+0.6	3.12	153.94	138.36	133.07	143.18	153.94	158.24	125.95	148.95
Europe (837)	133.03	+0.8	119.35	114.91	123.63	121.98	+0.6	3.91	132.03	118.67	114.13	122.80	121.25	151.52	125.50	155.21
Nordic (111)	185.27	+0.3	166.22	160.03	172.17	169.39	+0.2	1.94	184.77	166.07	159.72	171.85	169.06	200.81	155.55	215.63
Pacific Basin (717)	131.81	+1.3	118.26	113.86	122.50	114.47	+1.2	1.09	130.12	116.95	112.48	121.02	113.09	145.92	117.86	153.98
Euro–Pacific (1554)	132.63	+1.1	118.99	114.55	123.25	118.27	+1.0	2.22	131.20	117.93	113.41	122.03	117.13	147.66	121.29	154.89
North America (641)	153.81	+0.6	138.00	132.88	142.97	152.21	+0.6	3.13	152.93	137.45	132.21	142.26	151.35	157.04	125.91	148.43
Europe Ex. UK (597)	112.89	+0.3	101.29	97.54	104.94	106.06	+0.1	3.17	112.61	101.22	97.36	104.76	105.93	129.80	106.85	142.04
Pacific Ex. Japan (243)	143.42	+0.7	128.67	123.90	133.29	128.62	+0.5	4.36	142.46	128.04	123.16	132.51	127.97	145.66	111.40	144.81
World Ex. US (1746)	134.73	+1.0	120.88	116.39	125.21	119.65	+1.0	2.27	133.33	119.84	115.26	124.02	118.51	148.16	122.32	154.92
World Ex. UK (2032)	137.99	+0.8	123.80	119.20	128.25	128.76	+0.8	2.33	136.88	123.03	118.33	127.33	127.77	145.77	120.06	149.39
World Ex. So. Af. (2211)	139.74	+0.9	125.37	120.72	129.88	130.37	+0.8	2.58	138.51	124.50	119.75	128.84	129.31	148.66	122.92	151.46
World Ex. Japan (1798)	147.07	+0.6	131.94	127.05	136.69	140.60	+0.6	3.45	146.12	131.34	126.32	135.93	139.66	152.83	128.69	151.57
The World Index (2272)	140.50	+0.9	126.06	121.37	130.58	130.74	+0.8	2.58	139.28	125.19	120.40	129.56	129.67	149.01	123.28	151.64

Latest prices were unavailable for this edition.